THE SYSTEM OF FINANCIAL ADMINISTRATION IN BRITISH INDIA.

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"*Apart from its importance as the fuel of the whole administrative machine, the finance of a country is a symptom and a gauge of the quality of its government.*"—*Government of India, Reforms Despatch, dated the 5th March 1919.*

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INTRODUCTION.

This book is intended for the use of students of Indian public finance and others who wish to study the financial system but have not the time to go through the multifarious departmental codes and regulations and Government resolutions in which the desired information is to be found. There are many publications on Indian finance which have appeared in recent times, but, so far as I am aware, none of them has attempted to describe the financial machinery. The financial arrangements introduced by the Government of India Act, 1919, and the rules framed thereunder are of a somewhat complicated character and have rendered obsolete much of what was prevalent only a few years ago. Moreover, financial questions pertaining to the provinces as well as the Central Government have been occupying the attention of all interested in the well-being of this great country in a manner previously unknown. The new elections will bring to the legislatures persons who will be desirous of studying the system before they form opinions on the several urgent and important financial questions which will come up before them. If the following pages help in any manner in the understanding of the system I shall consider my humble efforts repaid a thousand times over.

Needless to say that in a description of this kind there may be errors of omission and commission, even though I have taken care to avoid them as far as I could. I shall be most grateful for suggestions and criticisms that any kind reader may be willing to offer.

This book has no official character whatsoever and I am personally responsible for all that is said in the following pages.

P. K. WATTAL.

Bombay, 30th November 1923.

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CHAPTER 1.

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The Secretary of State.—Under the Government of India Act the primary responsibility for the finances of India rests with the Secretary of State and the latter is answerable to Parliament for the exercise of that responsibility. Under section 2 (2) of the Act "the Secretary of State may, *subject to the provisions of this Act or rules made thereunder*, superintend, direct and control all acts, operations and concerns which relate to the government or revenues of India, and all grants of salaries, gratuities and allowances, and all other payments and charges, out of or on the revenues of India." Section 21* of the same Act is quite definite on the point. It runs as follows:—

"*Subject to the provisions of this Act, and rules made thereunder,* the expenditure of the revenues of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council, and no grant or appropriation of any part of those revenues, or of any other property coming into the possession of the Secretary of State in Council by virtue of

*This section covers only cases of expenditure where payments are involved. Cases such as those relating to remission of land revenue or rebate of customs duty or abandonment of other claims of Government would fall under sub-section (2) of section 2 of the Government of India Act, already quoted above

the Government of India Act, 1858, or this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council of India.

Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State in Council with the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of a majority of such votes."

The qualifications in the wording of these sections are full of meaning and deserve careful attention. The proviso to section 21 was added by the Government of India Amendment Act of 1916. The section as it previously stood did not make it clear that the Secretary of State could delegate his powers to the authorities in India. But as a matter of fact these authorities exercised by delegation from the Secretary of State in Council considerable powers with regard to expenditure from Indian revenues. A literal fulfilment of the old section would have meant that each item of expenditure should be sanctioned by the Secretary of State in Council—obviously an impossible position, as it would have brought to a standstill the entire administrative machinery in India. This addition to the section only made the position clear and specifically gave power to the Secretary of State in Council to delegate his powers to any authorities he liked.

The words " or rules made thereunder" in section 2 (2) and " subject to the provisions of this Act and rules made thereunder" in section 21 were inserted by Part II of Schedule II of the Government

of India Act, 1919. Such a step was rendered necessary by the constitutional changes contemplated by that Act. In accordance with the promise of "the gradual development of self-governing institutions" made in the memorable declaration of 20th August 1917 and reiterated in the preamble of the Government of India Act, 1919, large financial powers have been conferred on provincial governments and provincial legislatures. The financial powers of the Central legislature and the Central Government have also been considerably enlarged. The provisions for the exercise of these enlarged powers are either embodied in the Act itself or are to be found in the rules framed under the Act. The exercise of these new powers could not obviously be subject to the plenary control of the Secretary of State in Council over grants and appropriations, and therefore some modification in that power was called for. The additions referred to above were introduced with that intention.

Financial powers exercised by the Government of India, the provincial governments and subordinate executive authorities in India are derived from the Secretary of State in Council by delegation of authority and also from the specific provisions in the Government of India Act and the rules framed thereunder. The budget proposals of the Government of India and particularly those affecting taxation have to be referred to the Secretary of State in the first instance and approved by him before

the budget is presented to the legislature. The Secretary of State also controls ways and means operations, sales of Council Bills, the management of the Gold Standard and Paper Currency Reserves, the purchase of silver for coinage, the policy with regard to exchange and currency, the conditions of service, pay and allowances and pensions of the All-India Services, and all borrowing operations in London for central as well as provincial purposes. In fact, quite apart from his administrative powers of superintendence, direction, and control over the authorities in India, the Secretary of State is enabled to exercise, through the financial restrictions, a considerable measure of control over the administrative acts and measures of the central and provincial governments in India.

Expenditure in England out of Indian revenues is authorised by the Secretary of State in Council or the High Commissioner* for India, as the case may be. But under section 20 (1) of the Government of India Act the revenues of India can be applied, subject to the provisions of the Act, for the purposes of the government of India alone. Section 20 (2) specifies the charges to be borne by the revenues of India. Under section 22 Indian revenues may not be applied to defraying the expenses of military operations beyond the Indian frontiers, without the

*The expenditure incurred by the High Commissioner is mainly on purchases of stores and payments of leave allowances to Indian Government Officers. The High Commissioner only acts as the agent of the central and the provincial governments and not as an independent financial authority like the Secretary of State in Council.

consent of both Houses of Parliament. Additions to the establishment of the Secretary of State are governed by section 17 of the Act and require an order of His Majesty in Council for that purpose.

The expenditure on account of the India Office and the High Commissioner for India is met out of Indian revenues. The British Treasury, however, bears a certain portion of the charges on account of the India Office.

"The salaries of the Secretary of State and the Parliamentary Under-Secretary, amounting to £6,500 a year, are borne by His Majesty's Treasury and included in the Home Civil Service vote.

The Treasury makes to the India Office an annual contribution equivalent to that part of the total estimated cost of the India Office (exclusive of the salaries of the Secretary of State and the Parliamentary Under-Secretary) which is attributable to the administrative, as distinct from the agency, work of the Office.

Of this annual contribution, a sum of £40,000 which the Treasury was contributing towards the cost of the India Office previous to the Government of India Act of 1919, in accordance with the recommendations of the Welby Commission, does not take the form of a direct payment, but has been indirectly allowed for in adjustments between the two departments in respect of certain divisible charges.

The direct contribution by the Treasury, *i.e.*, exclusive of the salaries of the Secretary of State and the Parliamentary Under-Secretary and of the indirect contribution of £40,000 was fixed in 1920 at £90,000 a year for the period of five years from 1st April 1920. It was subsequently raised with the concurrence of the Treasury to £136,000 a year. Contributions were made at the latter rate for the years 1920-21 and 1921-22. . . . . . ."

(Extract from the reply given by the Finance Member to a question asked in the Legislative Assembly on the 15th January 1923, *vide* Legislative Assembly Debates Volume III, pages 1078-79.)

The rest of the charges on account of the India Office are borne by Indian revenues.

The Finance Department, India Office.—For the proper disposal of financial business, there is a Finance Department in the India Office, with two Financial Secretaries in charge of the two branches. There is also the office of the Accountant-General which shares with the Finance Department the disposal of certain classes of financial business. Roughly speaking, the Finance Department is responsible for the following classes of work :—

(1) Proposals relating to imposition or remission of taxation.

(2) Questions relating to general financial administration in India, including financial powers of the Government of India and Provincial Governments.

(3) Questions relating to general civil and military expenditure in India.

(4) Preparation of annual estimates of receipts and disbursements of the India Office. The estimates are prepared by the Accountant-General but scrutinised by the Financial Secretary.

(5) Currency policy, including banking, investment of Gold Standard Reserve and Paper Currency Reserve, and purchase of silver.

(6) Issue of loans, etc.

(7) Sale of Council Bills.

(8) Legislation in the United Kingdom regarding financial matters. (For instance, loan bills and private bill legislation concerning Railway Companies); preparation of material for use in Indian financial debates in Parliament and answers to parliamentary questions on Indian financial matters.

(9) Financial relations with Departments of His Majesty's Government, mainly, War Office, Foreign Office and Admiralty (in co-operation with head of administrative department concerned).

(10) Annual programme of capital expenditure on Railways and financial aspects of big irrigation projects (in co-operation with Public Works Secretary).

(11) Relations with Railway Companies, including revision of contracts, purchase of lines, sanction to issue of capital and concession for new lines (in co-operation with Public Works Secretary).

(12) The system of accounts in England and India and of audit in India.

The Accountant-General, India Office.—The Accountant-General is mainly responsible for work connected with—

(1) Receipts and payments of the India Office.

(2) The placing of India Office balances on loan or deposit (on the advice of the India Office broker and under the orders of the Chairman of the Finance Committee of the India Office).

(3) The preparation of annual estimates of receipts and disbursements of the India Office.

(4) The preparation of the annual accounts of receipts and disbursements of the India Office for presentation to Parliament and of monthly accounts for transmission to the Government of India.

(5) Questions relating to numbers, pay and conditions of service generally of the India Office staff.

The Finance Committee of the India Office.—To assist the Secretary of State in financial matters there is a Finance Committee which is one of the Committees of the Council of India appointed for the more convenient transaction of business under section 10 of the Government of India Act. This Committee is appointed annually and the Chairman is chosen by the Secretary of State. The Committee is an advisory body and considers the papers referred to it by the Secretary of State or other officers to whom such power has been delegated by the Secretary of State. Speaking generally, the Finance Committee advises on the placing of India Office balances on loan or deposit, the annual estimates of receipts and disbursements of the India Office, questions relating to civil and military expenditure in India and all important financial questions dealt with in the Finance Department of the India Office. After the Finance Committee has made its recommendations the papers generally go to the Permanent Under-Secretary who submits them for the orders of the Secretary of State. In cases* where

* The concurrence of a majority of votes is required by the following sections of the Government of India Act:—Section 28, section 29, section 85 (2) (*a*), section 94, section 95, sections 96-B, 96-C, 96-D, section 99, section 100. Section 21 has already been mentioned on page 2.

the concurrence of a majority of votes of the Council of India is necessary under the Act, the decision of the Council of India is so taken and recorded and given effect to, otherwise the business is disposed of by the Secretary of State under sections 9 and 11 of the Government of India Act.

The Government of India.

The Governor-General in Council.—The Central government of India is directed by the Governor-General and his Executive Council who are commonly spoken of as the Government of India* and are collectively responsible to His Majesty's Government for the administration of India, including its finances. One of the members of the Executive Council is placed in charge of the department of finance which, apart from its other duties and functions, is the custodian of the interests of economy and general financial propriety.

Separation of provincial from central finance.—Under the Montagu-Chelmsford reforms a clear demarcation of functions between the Central and the provincial governments has been introduced and the whole field of administration chalked off into subjects, central and provincial†. The Central Government is primarily responsible for the finance of central subjects and the provincial governments for the finance of provincial subjects.

* The statute recognises only the Governor General in Council and makes no mention of any such corporate body as the Government of India.

† These remarks apply only to what are known as Governor's provinces. In territories administered directly by the Government of India all subjects are treated as central.

It is not permissible for the Central Government to spend money on a provincial subject, except in return for services rendered. Certain central subjects are administered by provincial governments acting as the agents of the Governor-General in Council. Such subjects are known as 'agency' subjects.

Central subjects.—A list of the more important central subjects is given by account heads below:—

Customs.
Taxes on income.
Salt.
Opium.
Railways.
Posts and Telegraphs.
Currency.
Mint.
Audit.
Army.
Marine.
Military Works.
Political.
Ecclesiastical.

Financial powers of the Government of India.—The Secretary of State in Council has, under the proviso to section 21 of the Government of India Act, delegated considerable powers to the Governor-General in Council with regard to expenditure from central revenues upon subjects other than pro-

vincial*. A copy of these rules is reproduced as Appendix I. As, however, all sanctions to expenditure must necessarily be subject to provision of funds in the estimates the powers of the Government of India with regard to expenditure are circumscribed by the statutory powers of the Legislative Assembly with regard to the voting of the demands for grants under section 67A of the Government of India Act.

The Secretary of State in Council has permitted the Governor-General in Council to re-delegate his powers to any subordinate authority upon such conditions as he may think fit. Such re-delegation must not, however, transgress the limits of the Government of India's own powers.

Acting on the power of re-delegation thus conferred upon them, the Government of India have framed rules defining the financial powers of —

(*a*) local governments in regard to agency subjects;
(*b*) departments of the Government of India;
(*c*) minor local governments;
(*d*) the Auditor-General;
(*e*) the Director-General, Posts and Telegraphs;
(*f*) the Central Board of Revenue.
(*g*) the Controller of the Currency.

These powers have been officially reproduced in book form, known as the "Book of Financial Powers."

* The words 'other than provincial' have been used deliberately, instead of 'central.' They include central subjects as also all subjects, in other than Governor's provinces.

Duties and powers of the Finance Department.—The duties and powers of the Finance Department of the Government of India are regulated by rules for the transaction of business in the Governor-General's Council made by the Governor-General in exercise of the powers conferred on him by section 40 (2) of the Government of India Act, which are known generally as the 'Rules of Business.' These rules are treated as confidential and consequently only such reference will be made to them as can be extracted from public memoranda and papers published by the authority of Government from time to time.

FUNCTIONS OF THE FINANCE DEPARTMENT.

The heads of business dealt with in the Finance Department of the Government of India include —

(1) Public accounts and estimates.
(2) Public expenditure.
(3) Public ways and means, including loans to and from the public treasury.
(4) Management of the public funds.
(5) Taxation.
(6) Provincial finance.
(7) Borrowing of provincial governments.
(8) Alienations of revenue and of land.
(9) Opium, salt, customs*, income-tax, super-tax; as also excise and stamps in territories directly administered by the Central Government.

* Excluding tariffs, which are dealt with in the Department of Commerce.

(10) Currency and Banking, including—
 (*a*) Mints;
 (*b*) Coinage;
 (*c*) Paper Currency; and
 (*d*) The Imperial Bank of India.

(11) Pay and allowances of public officers, including—
 (*a*) Salaries and acting allowances;
 (*b*) Leave allowances;
 (*c*) Travelling allowances; and
 (*d*) Pensions.

(12) The Indian Audit and Accounts Service.

(13) Army Finance.

(14) The Military Account Department.

THE CIVIL* BRANCH OF THE FINANCE DEPARTMENT.

Secretariat procedure.—The normal constitution of this branch is as follows:—

The higher officers are—
 (*a*) Secretary;
 (*b*) Deputy Secretary;
 (*c*) Under-Secretary; and
 (*d*) Assistant Secretaries.

Below these officers are the Registrar and the Superintendents who are usually recruited from the clerical grades. Under the Superintendents there is the clerical establishment. The whole branch is divided into sections dealing with one or more of the

* That branch of the Finance Department Secretariat which deals with Military Finance, is known as the Military Financial Adviser's Branch, and deals with heads (13) and (14) in the above list. The remaining heads are dealt with in the Civil Branch.

subjects (1) to (12) enumerated above. Each section is in charge of a Superintendent, who is responsible for office discipline and the correct and efficient discharge of their duties by the clerical establishment. Some sections of the branch are in charge of the Assistant Secretary and others in charge of the Under-Secretary. Cases are prepared in the sections to which they relate and are submitted, with an office note giving all relevant facts pertaining to them, to the Assistant or the Under-Secretary.

Routine and unimportant matters are disposed of by the officer in charge of a section on his own responsibility. But every case of importance has to be placed before the Finance Member for orders, with the Secretary's views recorded thereon. All cases of major importance, including cases in which it is proposed to overrule a provincial government or where another Department of the Government of India is unable to agree with the views of the Finance Department, have to be submitted to the Governor-General, who may either dispose of any such case himself or decide that it should be brought before a meeting of the Executive Council.

References of minor importance which involve no new principle or departure from well established rule or custom may be disposed of finally by the Secretary himself. The Deputy Secretary deals with cases relating to expenditure and disposes of a good many of them, submitting the rest

direct to the Member in charge for orders, except really important references, which pass through the Secretary, who records his opinion on the file before the case is submitted to the Member in charge. All cases submitted by the Deputy Secretary direct to the Hon'ble Member are sent to the Secretary after the Hon'ble Member's orders have been recorded on them and the Secretary is thus enabled to keep himself in touch with all the work of the department.

The position of the Secretary is one of great responsibility. He is responsible for the general working of the department. On him is also placed the duty of seeing that the Rules of Business and other office rules are strictly observed. He is not a Secretary to the Hon'ble Member, but a Secretary to the Government of India. He regularly attends on the Governor-General once a week for the disposal of business and is empowered to submit any case at any stage direct to the Governor-General. Cases, therefore, in which the Financial Secretary differs from the Finance Member might be referred to the Governor-General.

If, while dealing with a case submitted to him, the Governor-General agrees with the Hon'ble Member it may be disposed of by him on his own authority or, if he so decides, it may be brought before a meeting of the Executive Council and dealt with in accordance with section 41 of the Government of India Act.

Where the Governor-General does not agree with the Hon'ble Member, he is not empowered

ordinarily to overrule the latter and such cases have to be referred to the Executive Council and dealt with under section 41 of the Act.

Powers of the Finance Department in relation to expenditure.—The above provisions and safeguards apply more or less to all departments in the Secretariat of the Government of India, but with regard to the Finance Department there are certain special provisions and safeguards. Reference to one such provision in the Rules of Business was made before the Welby Commission. Except where the Governor-General overrules the majority of his Executive Council under section 41 (2) of the Government of India Act, the decision of the majority is binding on all departments of Government, but it has been provided as a special case that where the Finance Member differs from another Member of the Governor-General's Council and the Governor-General supports the Finance Member, the matter should be referred to the Secretary of State in Council for orders before any action is taken.

Moreover, another rule provides as follows:—

"No proposal involving an abandonment of revenue for which credit has been taken in the budget, or involving expenditure which has not been provided for in the budget, or which, though provided for, has not been specifically sanctioned, shall be brought forward for the consideration of the Governor-General in Council, nor shall any orders giving effect to such proposals issue, without a previous reference to the Finance Department."

This rule is, however, subject to the following exception :—

"In cases which, in the opinion of the Governor-General, require great secrecy and despatch, expenditure may be authorised under the Governor-General's written orders without a previous reference to the Finance Department, but every such order must be communicated to that Department."

It is also laid down that no subordinate authority may sanction, without the previous consent of the Finance Department, any expenditure which involves the introduction of a new principle or practice likely to lead to increase of expense.

"The effect of this procedure is to give the Finance Department an opportunity of criticising all new expenditure of any importance and of also inviting the department in the Government of India which is interested in the purpose of the expenditure to examine the project in its administrative aspects. It can challenge the necessity for expenditure; it can bring to notice obvious objections or extravagances; it can call for facts to which it considers that sufficient weight or sufficient publicity has not been given."

(Para. 12 of Government of India Memorandum on finance prepared for the Feetham Committee, page 88 of the Committee's Report.)

Moreover, as all excesses over grants voted by the Legislative Assembly have to be regularised either by supplementary or excess grants, as the case may be, the exercise of powers of sanctioning expenditure by the administrative departments of the Government of India is also subject to the proviso that excesses over grants voted by the Legislative Assembly are not permitted in any case without a reference to the Finance Department,

which is generally responsible to the Assembly for the voted items.

In the Army, Railway and Posts and Telegraphs Departments, the Finance Department keeps its representatives, known as Financial Advisers*, who have a right to be consulted in all important financial matters coming up to head-quarters and whose views cannot be over-ruled by the Department concerned without a reference to the Finance Member. These officers are responsible for the control of existing and proposed expenditure and also to see that new expenditure is not incurred without careful scrutiny and until the probable commercial results—in the case of commercial or quasi-commercial concerns—have been fully examined.

The general restrictions imposed by the Finance Department on appropriations and reappropriations for expenditure on central subjects will be dealt with in the chapter on the execution of the budget.

The control over expenditure exercised by the Finance Department at the time of the preparation of the estimates will be explained in the chapter on the preparation of the budget.

Powers of the Finance Department in relation to revenue.—Under the Rules of Business all proposals for the abandonment of revenue for which credit has been taken in the budget must be referred to the Finance Department. Thus a proposal to diminish postage or parcel rates or railway rates

* The designation of the officer attached to the Railway Board is Financial Commissioner.

and fares during the currency of a financial year would have to come before the Finance Department. Proposals for alienations of revenue and land, beyond certain money limits, must also be referred to the Finance Department. This applies to all the departments of the Central Government. But certain important revenue departments, such as customs, income-tax, salt and opium are directly administered by the Finance Department through the Central Board of Revenue. The Finance Department also receives periodical reports of the progress of the collection of revenue and is entitled to call for explanations if the reports indicate a sensible falling off in revenue as compared with the budget estimate for the period in question. Moreover, all proposals for central taxation, in whatever department arising, have to be referred to the Finance Department under the Rules of Business. In this manner the Finance Department is enabled to keep its finger on the pulse of the finances of the Central Government; it controls expenditure as well as revenue and no proposals tending to increase budgetted expenditure or diminish revenue to any material extent can be given effect to without their coming at some stage or other to the cognisance of the Finance Department.

The Provincial Governments.

The financial machinery in the provinces will be dealt with in the section relating to provincial finance.

CHAPTER 2.

The Preparation of the Budget.

Meaning of the word 'budget'.—The word budget is derived from the French *bougette,* a diminutive of *bouge,* a leather bag. In its present sense the word was first used* in connection with Walpole's financial scheme in a satire entitled 'The Budget Opened.' Walpole was represented in this pamphlet as a conjuror, the budget being his wallet or bag of tricks.

Nowadays the word 'budget' is used to signify the statement of estimated revenue and expenditure of the financial year—*vide* also section 67A of the Government of India Act. The budget is the starting point of financial control, by the Executive as well as by the Legislature. It defines the objects on which public money may legitimately be spent; it also prescribes limits for the expenditure of money on specified objects which may not be exceeded; and, lastly, it authorises the raising of funds to meet the expenditure to be incurred on the public service.

Division of the subject into four parts.—In order to understand clearly the system of financial control one has to study four operations connected with the budget which occur in the following logical sequence:—

(1) The preparation of the budget.

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*See Higgs' Financial System of the United Kingdom, page 37.

(2) The voting of the budget.

(3) The execution of the budget.

(4) The enforcing of accountability.

Part 1 deals with the filling in of estimate forms by heads of offices, their scrutiny and review by departmental controlling officers, and finally by the Accountant-General, the Administrative Department of the Government, the Finance Department and the collective Executive Government.

Part 2 deals with the presentation and discussion in the Legislature of the proposals in the budget for expenditure and taxation and the rules and limitations under which such discussion takes place.

Part 3 deals with the actual carrying out of the budget plan, the watching of the progress of actuals as compared with the budget, and the rules as regards appropriations and reappropriations.

Part 4 deals with the review of transactions after the budget has been executed, and shows in what manner the executive government is made to realise its accountability to the Legislature in the spending of grants voted by the latter.

It is proposed in this chapter to give a brief description of the mode of preparation of the budget. The other three processes will be described in the chapters that follow.

PREPARATION OF THE BUDGET.

In connection with this part three questions deserve investigation :—

(1) Who prepares the budget ?

(2) When is the budget prepared ?

(3) How is the budget prepared ?

As regards the first question, the practice in India is for the executive to prepare the budget. It is clearly laid down in the financial codes that the responsibility for the budget estimates lies on the executive officers and not on the Accountant-General.*

As a member of the French Legislature once beautifully put it† :—

"The pilot in charge of steering a vessel is the only competent judge of the position and of the spread he has need to give his sails because he alone is posted in such a way as to know the force and the direction of the winds and currents, which may hinder or delay his movements."

We have now to deal with the second question, namely, when is the budget prepared ? The time of preparation of the budget is usually regulated by three main considerations :—

(*i*) The date of commencement of the financial year.

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* The estimates for superannuation allowances and pensions, territorial and political pensions, and interest on miscellaneous obligations are, however, prepared by the provincial Accountants-General (who are in the best position to prepare the estimates under these heads) and are incorporated by them in the consolidated estimates submitted to the Finance Department.

† *Vide* The Budget by M. Rene Stourm (Appleton), page 54.

(*ii*) The dates fixed for the sessions of the legislature.

(*iii*) Regard for administrative convenience.

Owing to the great diversity in the conditions prevailing in each province in India, no one date is fixed for the submission of the budget estimates by the local officers in all the provinces; but, speaking broadly, it may be said that the spade work in connection with the budget is done in the local executive offices in the month of September. This naturally means that the estimates are prepared from 6 to 18 months in advance of the date of their actual execution.

It stands to reason that an estimate prepared so far ahead of the coming year is not likely to be very accurate and especially so in a country like India where a great deal depends upon the South-West monsoon. As the Chamberlain Commission on Indian Finance and Currency put it:—

"The revenues of India, whether shown under railways or customs or directly under the head of land revenue, fluctuate to an extraordinary extent with the success or failure of the agricultural operations of each year, and these again depend predominantly on the south-west monsoon which spreads over the Indian Continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March, and the Finance Minister accordingly has to prepare his estimates in ignorance of the most important factor on which the results of the year will depend."

The Chamberlain Commission devoted some attention to the question of a suitable financial year for India, and considered various suggestions

put forward before it. Some of the witnesses suggested that the financial year should begin on the 1st November, while others preferred the calendar year. In favour of the latter view was Sir James, (now Lord) Meston, who possessed exceptional knowledge of Indian budgets. In his evidence before the Commission he said, that if the budget was laid before the legislature on the 1st December* :—

"We should then have before us a full and complete account of the rains: we should know exactly what sort of harvests we were going to get in, and what sort of revenue was going to come in, during the first three or four months of the year; and although it is true that we should miss the experience of what is called the winter rains, still we should, I think, be able to give a slightly better and a slightly stronger estimate than we do under the present conditions."

The Commission made the following recommendation on the subject :—

"It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has, therefore, been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January. There may be administrative difficulties in carrying this suggestion into effect, but, financially, it would be a great improvement. Criticism directed against the inaccuracy of Indian budgetting is not effectively answered by a reference to the difficulties which arise under present conditions. It has to be shown further that these difficulties cannot be removed by a change of date without

* As the financial year would commence on the 1st January and the passage of the budget through the legislature would take a month, the date of presentation of the budget to the legislature would be 1st December.

incurring graver disadvantages, and we commend the question to the consideration of Government."

Soon after the Commission's report was received and dealt with by the Government of India the War broke out, and the consideration of the above question was held up, but it was taken up again by the Government of India in December 1921* when the opinions of Provincial Governments and Chambers of Commerce were invited on the proposal for a change in the date.

The replies received showed that the Provincial Governments were unanimously against making a change, while opinion among commercial bodies was divided. In the absence, therefore, of any marked unanimity of opinion in favour of the change the Government of India decided to drop the proposal, *vide* Government of India Finance Department Resolution No. 83-F, dated the 18th January 1923.

Another point in connection with the time of preparation of the budget is that the shorter the interval between the time of preparation and the actual execution of the budget the greater the likelihood of the estimate being accurately framed and, therefore, the greater the advantage to the tax-payer in having to find only just sufficient funds to meet actual requirements. Otherwise, it is a besetting tendency in budget framing officers to under-estimate the revenue and over-estimate the expenditure, when

* *Vide* circular letter No. 3290-F, Government of India, Finance Department, dated the 3rd December 1921.

they do not know how they will stand with regard to revenue and expenditure during the coming year, which is still very far ahead. They feel that it is wiser to err on the safe side. It is much better to have just a little more funds in excess of actual requirements than to be caught short of cash during the currency of the year. Or, as Mr. (afterwards Viscount) Goschen put it, it was the duty of the framers of the budget to make sure as far as human expectation could go that they were on the right side at the end of the year. The question of shortening the interval above referred to was also considered by the Government of India in connection with the proposal for a change in the date of the financial year. The suggestion made was that if the financial year be changed to 1st January, it might be more convenient to present the budget to the legislatures a month after—as is done in England—instead of a month prior to the commencement of the financial year, as is the practice at present. This suggestion, if accepted, would have conduced, among other things, to more accurate budgetting, as "departmental officers would not have to prepare their estimates for the succeeding year so long ahead of the commencement of the year as at present." (para. 6 of circular of 3rd December 1921.)

As the proposal for a change in the date of the beginning of the financial year was dropped no action was taken on this proposal which was consequential thereto.

It now remains for us to deal with the third, which is the main, question to be answered in this chapter, *viz.*, how is the budget prepared. Owing to the separation of provincial from central finance under the Montagu-Chelmsford reforms, the estimates of provincial receipts and charges are no longer incorporated in the budget of the Government of India. There is thus no one comprehensive budget for the whole of India, but a series of budgets, one for the Central Government, and one for each 'Governor's province' (of which there are nine in all).

Moreover, the provincial governments are empowered to frame their own rules for the preparation and examination of their detailed estimates. There is thus no uniformity of procedure in the preparation of the budget all over India, but as a matter of convenience the procedure adopted by the Central Government for their own estimates has been generally followed by the provincial governments, and it is thus possible, without unnecessarily splitting up the narrative, to present a general picture of the budget procedure, with due regard to the varying requirements of provincial and central subjects. Particularly as regards dates, the remarks contained in the succeeding paragraphs should be understood to be subject to revision every year and from province to province. To prevent confusion it may also be explained that, unless the contrary is stated, the terms 'Government' and 'Finance Department' throughout this chapter refer to the Govern-

ment of India and their Finance Department for central estimates and to the provincial governments and the provincial finance departments for provincial estimates.

Composition of the estimates.—The estimates of Governor's provinces are comparatively of a simple character as they relate only to civil administration, and thus comprise only civil receipts and charges —including not only the estimates of provincial revenue and expenditure, but also estimates of provincial transactions under what are known as debt and remittance heads. They also include the sterling transactions in England incurred on behalf of Local Governments by the Secretary of State and the High Commissioner for India respectively. Detailed estimates of such transactions are duly forwarded to those Governments by the authorities referred to above for incorporation in their detailed estimates in India. The method of adjustment of exchange in the estimates is dealt with in the chapter on Government Accounts.

The estimates of the Central Government comprise the following :—

(*i*) Estimates of the Civil Departments and territories administered direct by the Government of India.

(*ii*) Estimates of the non-civil Departments, such as the Military, the Railways, and the Posts and Telegraphs.

(*iii*) Estimates of the India Office.

(*iv*) Estimates of the High Commissioner for India.

Under the head (*i*) are comprised the estimates of central heads, such as taxes on income, customs, opium, salt, currency, audit, etc., as well as the estimates of the revenue and expenditure of territories administered direct by the Central Government, such as the North-West Frontier Province, Baluchistan, Ajmer-Merwara, Delhi, Coorg, etc. Estimates relating to agency subjects under this head are compiled by the provincial Accountants-General and are submitted to the Government of India through the provincial governments. The other estimates under this head, *viz.*, those for central subjects and territories directly administered by the Government of India, are compiled by the Accountant-General, Central Revenues, and are submitted to the Government of India direct.

The estimates of the non-civil Departments are compiled as follows :—

(*a*) Estimates of the military services by the Financial Adviser, Military Finance.

(*b*) Estimates of the Railway Department by the Accountant-General, Railways.

(*c*) Estimates of the Post and Telegraph Department by the Accountant-General, Posts and Telegraphs.

The estimates of the India Office are compiled in London under the direction of the Secretary of State for India by the Accountant-General, India Office.

Similarly, the estimates of the office of the High Commissioner for India are compiled by his Chief Accounting Officer.

The various stages leading up to the compilation of the budget may now be considered under the following heads :—

(*i*) Preparation of the estimates by heads of offices.

(*ii*) Scrutiny of the estimates by departmental controlling officers.

(*iii*) Further preliminary scrutiny of the estimates by :—

(*a*) The Accountant-General.

(*b*) The Administrative Department of the Government.

(*c*) The Finance Department.

(*iv*) Forecast of probable revenue and expenditure for the next year.

(*v*) Consolidation and review of the estimates by the Accountant-General in his budget notes and submission of the same to the Finance and the Administrative Departments.

(*vi*) Scrutiny of new items of expenditure by the Finance Committee of the Legislature and the issue of orders by the Finance Department on the budget notes submitted by the Accountant-General.

(*vii*) Submission by the Accountant-General of the first edition of the budget notes on the revised estimates of the current year and the budget estimates for the next year, after incorporation of the orders

issued by Government on the original notes submitted by him.

(*viii*) Consideration of the first edition of the estimates by the Government collectively and the issue of orders thereon to the Accountant-General.

(*ix*) Further review of the estimates (both revised and budget) by the Accountant-General in his second edition of the budget notes to the Finance Department.

(*x*) Final compilation of the estimates and their presentation to the Legislature.

Preparation of estimates by heads of offices.—

The estimates are usually prepared* by heads of offices in three parts:—

Part I relating to revenue and to standing charges, *i.e.*, charges which, though they may vary from year to year, are nevertheless not dependent upon the volition of the head of the department, *e.g.*, permanent establishment, travelling allowances and ordinary contingent expenditure.

Part II, Section A, relating to charges which, though not connected with new objects of expenditure, are nevertheless liable to fluctuate materially from year to year and which require to be scrutinised by Government before they can go into the budget, *e.g.*, purchase of animals or quinine, purchase of raw materials for jails, etc.

Part II, Section B, relating to entirely new objects of expenditure, including all items for which it is

* The remarks in this section apply only to the estimates of the Civil Administration.

necessary or desirable to obtain the approval of the Finance Committee, or for which such approval has already been obtained before the preparation of the estimates.

Part I as well as Part II, Section A, are prepared on forms—*vide* Appendices 2 to 7—supplied by the Accountant-General to heads of offices in the month of July or August. Each form pertains to a single major* head of account and estimates have to be prepared accordingly. The estimate of revenue is thus separate from the estimate of expenditure, even though both the revenue and the expenditure may be under the control of the same officer.

As will be seen from the specimen forms, each form contains columns for (*i*) actuals of the previous year; (*ii*) sanctioned estimate for the current year, under each of the minor and detailed heads printed on the form. Then comes the main column for the budget estimate of the next year. Sufficient space is provided for 'explanations of increase or decrease,' in a separate column, in which reasons have to be given for all proposed variations in the budget figure from the sanctioned estimate of the current year. All the columns have to be filled in by the departmental officers. In the case of revenue heads, however, the column for sanctioned estimate is filled in by the Accountant-General's office. The task of filling in the columns for the budget estimate of the next year is one requiring some judgment and

* For an explanation of the terms major, minor and detailed heads of account see the chapter on Government Accounts.

experience. It is not a simple arithmetical exercise in striking out averages of previous years' actuals and putting in a safe figure which would not look exactly like a repetition of the last year's performance. Behind figures lie the insistent realities of administration. The circumstances of no one year are exactly similar to those of the previous one and yet they are not quite dissimilar. One has, therefore, to use his judgment in estimating the similarities and dissimilarities and making due allowance for each. The following are some of the rules which heads of offices are expected to observe in the preparation of their budget estimates :—

(1) The budget is for what is expected to be actually received or paid (under proper sanction) during the year, including the arrears of past years, not for demands or liabilities falling due within the year. In other words, *the budget is an estimate of cash receipts and cash payments*—and not of hypothetical items—during the coming year, irrespective of the fact whether such receipts or payments relate to that year or previous years. As the legislature at the time of passing the budget has to see what funds will be required by the Executive for the service of the coming year, the strict observance of this principle is absolutely essential. For instance, material ordered in March 1923 but not paid for till November 1923 should be provided for in the estimates of the year 1923-24. Similarly, revenue though due in March 1923, but not expected to be paid into

the treasury till July 1923, has to be taken credit for in the estimates of the year 1923-24.

(2) For fixed charges, such as establishment, the detailed estimate should show the full amount of the sanctioned scale and where it is found by experience that a saving will arise from absence or other cause, a lump deduction may be made. The authority for the charge has to be quoted against each item.

(3) The estimate of receipts and varying charges should not merely be an arithmetical average of three years' figures. The average is a guide but it should not be taken absolutely.

(4) No new charge may ordinarily be included in the budget until sanctioned by competent authority.

(5) Each department should estimate for the whole receipt and charge with which it deals finally, irrespective of the fact that such receipt or charge is on account of another department.

(6) The gross transactions in the case of both receipts and charges in non-commercial departments are to be entered separately, that is to say, receipts are to be estimated as receipts on the receipt side of the budget and expenditure on the expenditure side, or in other words, it is not permissible to deduct receipts from charges or charges from receipts and frame the budget for net receipts (in the case of revenue departments) or net charges (in the case of spending departments). This rule is based on the principle that *the estimates* (*and accounts*) *should show*

the facts pertaining to the administration as they occur or are expected to occur and that nothing should, as far as possible, be kept back to avoid criticism. This is the general rule, but exceptions are allowed in certain cases, where the gross figures would obviously be misleading; such as refunds of revenue, which are deducted from the gross estimated receipts. These exceptions are based on the principle that *it is wrong to inflate the estimates* (*and accounts*) *both on the receipt as well as the disbursement side.*

In the case of quasi-commercial departments, such as Railways, Posts and Telegraphs and Irrigation, working expenses are deducted from gross earnings and the estimate prepared for net revenue only. Charges not included in working expenses, such as interest on capital, annuities, etc., are, however, shown separately on the expenditure side in the estimates.

(7) Estimates, particularly of revenue, should be framed on the assumption that agricultural and economic conditions during the year in question will be of a normal character.

Scrutiny of the estimates by departmental controlling officers:—From the head of the office the estimates go to the head of the department or the controlling authority who scrutinises and reviews them from the broader departmental—but still administrative and not financial—point of view. The estimate forms contain

a column for the head of the department to fill in under the heading 'budget estimate, next year.' In this column he either repeats the figure of the head of the office or suggests another, with reasons for doing so in the column provided for the purpose.

Preliminary scrutiny of the estimates by the Accountant-General and Government.—About the beginning of October the estimates leave the hands of the controlling officers. Part I is submitted both to the Accountant-General and to the Administrative Department of the Government concerned. The scrutiny applied to this part is comparatively simple. The Administrative Department examines it and if it proposes to make any reductions in the estimates of expenditure proposed by the local officers communicates such reductions direct to the Accountant-General by the beginning of November. If, however, the Administrative Department proposes any additions to the estimates of the local officers, it has to report them to the Finance Department for acceptance and communication to the Accountant-General. It will thus be observed that Part I of the estimates is not scrutinised in detail by the Finance Department and to this extent that department obtains a much-needed relief during a period of work at unusually high pressure.

As regards revenue estimates the Accountant-General compares them with the up-to-date actuals of the current year. In cases of striking variations, whether increases or decreases, he brings the facts to

the notice of the departmental officers, who thus get an opportunity of re-considering their figures in the light of fresh information, but if there is no time to correspond with the departmental officers he suggests changes in their figures for the consideration of Government in his original budget notes. The fixed charges are checked in the Accountant-General's office with the sanctions quoted against each. The account classification of the various items is also checked. Transfer adjustments with other governments or departments or between different heads of account also require to be examined. Any orders that Government may have issued with regard to particular items have also to be looked into. In a word, the Accountant-General brings to bear on the estimates all information which as a financial expert he can reasonably be expected to possess and which will affect the receipts and expenditure during the coming year. The figures for Part II-A are accepted by the Accountant-General as ordered by Government, but those for Part I are altered by him on a consideration of actuals or for any other reason known to him and the fact brought to the notice of Government through budget notes. After completing his examination of Part I, the Accountant-General communicates the results to the Administrative Department. If the latter sees reason to object to any of the corrections made by the Accountant-General it

addresses the Finance Department. By the middle of November, the examination of this part by the Accountant-General as well as the Administrative Department is concluded.

We have next to see what scrutiny is applied to Part II of the estimates. This part, as already stated, consists of two sections, A and B; section A consisting of fluctuating charges, and section B relating to entirely new objects of expenditure. As there is an essential difference in the examination of each of these two sections, it is proposed to deal with each section separately below.

Section A is prepared on forms supplied by the Accountant-General—*vide* Appendices 6 and 7—and is submitted in duplicate to the Administrative Department of the Government concerned—and not to the Accountant-General also, as in the case of Part I—through the controlling officers by the beginning of October. The Administrative Department scrutinises it and summarises its recommendations in a tabular statement in a form similar to Appendix 8 headed "Statement showing provision for fluctuating items of expenditure in the budget estimates of for ". Explanations have to be given of all increased provision which is not fully justified by past actuals. The statement is then sent in duplicate by the beginning of November to the Finance Department along with the original estimate (in duplicate) received from the local officer. The Finance Department records its

decision against each item in the statement in the column provided for the purpose and forwards the estimates to the Administrative Department and the Accountant-General by the middle of November. Items approved by the Finance Department are incorporated by the Accountant-General in his consolidated estimates. The Accountant-General's own examination of this part is confined to the preparation of the revised estimates and to the bringing to the notice of the Finance Department through his budget notes any items of excess or inadequate provision to which he considers it desirable to call attention.

Scrutiny of new items of expenditure.—The scrutiny applied to section B is something more than a departmental affair. Each head of office is expected to submit proposals for new expenditure as soon as the necessity for the expenditure in question comes to notice, without waiting for a consolidated report at the time of the submission of the estimates. This is necessary to ensure proper consideration of such proposals from the administrative and financial points of view. Such proposals are accordingly submitted from time to time to the Administrative Department of the Government through the head of the department. At the time of the preparation of his estimates, however, the head of the office consolidates (and includes new items which have not been previously reported) all such fresh items of expenditure—which are not included either in Part I or Part II, section A of the estimates—and

includes them in a statement in the form given in Appendix 8 which is submitted to the Administrative Department (through the controlling officer) along with Part II, section A. The Administrative Department has first to obtain the approval of the Finance Department to the new expenditure either through a consolidated statement—*vide* Appendix 8—of new items for each budget or by a separate reference for each item in the case of the more important proposals. For each item approved by the Finance Department, the Administrative Department has to prepare a memorandum by the beginning of November for the Finance Committee—provincial or central, as the case may be—of the legislature. This memorandum has ordinarily (except in simple cases) to be scrutinised and accepted by the Finance Department before it is circulated to the Committee. A meeting of the Finance Committee is usually convened in December when all such items are considered and those which are approved are communicated by the Finance Department to the Accountant-General, for incorporation in his consolidated estimates.

It is chiefly in connection with new items of expenditure that the Finance Department has its hardest work to do. The items shown in Part II, section B of the estimates, are the independent expressions of the needs of the various units of government. Upon the Finance Department falls the heavy responsibility of bringing them together, comparing and balancing one against the other and revising them in accordance with their relative importance and in

the light of available revenues. At this stage the duty of the Department is to discuss the necessity for the expenditure and the general propriety of the proposals. It has also to advise as to the provision of the requisite funds; whether they can be met from existing resources or whether they will involve new taxation; or in the alternative whether they constitute a proper purpose for borrowing. Should new taxation be contemplated, it is the Department's duty to criticise the proposals, to advise and estimate*. Orders on Part II-B are passed by the Finance Department (in consultation with the Finance Committee) after the receipt from the Accountant-General of the original budget notes† and the preliminary budget forecast, to which a reference is made below.

Budget Forecast.—As soon as orders on Part II-A are received by the Accountant-General from the Finance Department he prepares and submits to the Local Government‡ in December a 'forecast' of the probable revenue and expenditure of the ensuing year, omitting new items entirely from consideration. This he is enabled to do from Part I and Part II-A, which are by then in an advanced stage of preparation. The opening balance of the

* Memorandum on finance by the Government of India for the Feetham Committee, dated 31st December 1918, page 95 of the Report of the Committee.

† For an explanation of this term see the paragraph on consolidation and review of estimates.

‡ The budget forecast for the Central Government is prepared by the Government of India, Finance Department. It is on the basis of this forecast that the Government of India frame their preliminary budget proposals for submission to the Secretary of State.

next year is ascertained from the six monthly estimate —to which reference will be made in the chapter on the execution of the budget—of the current year, which shows, on the basis of 6 months' actuals, how the current year is likely to close. Thus Government are in a position, as it were, to feel the pulse of their finances and to arrive at some understanding with regard to new items of expenditure and any fresh taxation necessary during the ensuing year.

Consolidation and review of the estimates by the Accountant-General.—After the above preliminary scrutiny the estimates are consolidated by major heads of account in the Accountant-General's office. The Accountant-General then reviews each consolidated estimate on the form reproduced as Appendix 9, which is necessarily different from the forms on which the original estimates are prepared. In this form space is provided for—

(*i*) The actuals for the major head for the first 8 and 9 months and the last 4 and 3 months respectively and then the totals of the preceding 5 years.

(*ii*) The actuals for the major head of the first 8 and 9 months of the current year.

(*iii*) The budget estimate of the current year for the major head.

(*iv*) The revised estimate of the current year for the major head.

(*v*) The budget estimate of the coming year for the major head.

(*vi*) The details by minor heads of—

(*a*) actuals of the last 5 years;

(*b*) budget estimate of the current year;

(*c*) revised estimate of the current year;
(*d*) budget estimate of the next year.

Figures under (*i*), (*ii*), (*iii*), (*vi*) (*a*) and (*vi*) (*b*) are known. Figures under (*iv*) and (*vi*) (*c*) have to be estimated by the Accountant-General. Figures under (*v*) and (*vi*) (*d*) have already been estimated by the departmental officers, but are reviewed by the Accountant-General in what are known as his 'budget notes' and suggestions for increase or decrease therein made for the consideration of Government. The budget notes undergo two editions according as 8 or 9 months' actuals of the current year are available at the time of preparation of each edition.

Before the submission, however, of the first edition, a detailed note on the budget estimates only (not the revised estimate) under each major head is forwarded to Government together with a detailed consolidated statement by the Accountant-General. Orders of Government on these notes—which are referred to above as 'original budget notes'—are taken into account in the figures of the first edition of the budget notes. It is on these original budget notes that the spade work in connection with the budget is conducted in the Finance Department.

For the first edition (which is due for despatch from the Accountant-General's office about the second week of January) 8 months' actuals of the current year are available. In the case of estimates under the principal heads of revenue, preliminary

actuals for December are also made available and so these estimates are reviewed on the basis of 8 months' actuals plus December's preliminary figure, leaving only 3 months of the current year to be estimated. The 4 months' actuals (*viz.*, for December, January, February and March) under the other heads of the last 5 years are known. Special circumstances, if any, of the 4 months of the current year have to be allowed for. On a due consideration of these factors, the figure for the 4 months of the current year is then estimated. This added to the figure for 8 months' actuals gives the figure for the revised (as distinguished from the original budget) estimate of the current year. The details by minor heads in (*vi*) (*c*) are then filled in to work up to the total for the major head. The reasons for variations between the revised estimate and the budget estimate of the current year have to be brought out in the budget note. If it is found that there is a likelihood of the budget grant under any head being exceeded the point is included in the note and the steps taken to regularise the anticipated (or actual) excess are also briefly mentioned. As the revised estimate is prepared by the Accountant-General in the light of information more recent than that on which the departmental officers prepared their budget figures, the review by the Accountant-General has a special value from the financial point of view. It facilitates closer estimating and suggests corrections to tendencies to which estimating officers are as a rule liable,—*viz.*,

under-estimating the revenue and over-estimating the expenditure. The reasons for variations proposed by the Accountant-General in the figures of the departmental officers have to be clearly brought out in the budget note. Explanations have also to be given of variations between the budget estimate of the coming year and the revised estimate for the current year. Mention has also to be made of any special circumstances likely to affect the estimate for the coming year.

Each budget note is accompanied by a detailed statement—*vide* Appendix 10—showing (*i*) the actuals of the previous year, (*ii*) the budget estimate of the current year, (*iii*) the budget estimate of the ensuing year, as proposed by—

(*a*) The Controlling Officer,

(*b*) The Accountant-General,

under the various minor and detailed heads pertaining to the major head to which the budget note relates. In fact this detailed statement is ultimately printed as the detailed budget estimate, when the figures for the revised estimate and the budget estimate are finally accepted. The two columns for the budget estimate are then deleted and replaced by one, showing the figure accepted by Government.

The budget notes, together with the detailed statements pertaining thereto, are forwarded by the Accountant-General to the Finance Department from time to time as they are ready. Copies of the

notes are also forwarded to the Administrative Department concerned.

It is believed that at this stage the estimates receive the consideration of the Executive Government collectively and their decisions noted by the Finance Department and the budget notes returned to the Accountant-General for revision in the light of the remarks made.

The Accountant-General is also requested to prepare a second edition of the budget notes on the basis of 9 months' actuals and 3 months' approximates of the current year and to return the notes so as to reach the Finance Department not later than the first or the second week of February. About the same time he is asked to telegraph any important alteration which he considers necessary on a consideration of 10 months' actuals for the principal revenue heads.

The second, or the final, edition is then prepared accordingly by the Accountant-General in consultation, where necessary, with the departmental officers. The notes are then submitted again to the Finance Department with the replies of the Accountant-General and any further information available. At the same time the 'statement of demands'* is compiled and submitted to the Finance Department. By the time the second edition of the notes is disposed of in the Finance Department, the budget has to be got ready for presentation to the legislature.

* For further information regarding this see the next chapter.

At this stage the Government has very nearly made up its mind as to what the budget will be. Changes in figures due to contemplated changes in taxation, etc., are, however, not communicated to the Accountant-General till they are made public, so as to prevent information leaking out and causing loss to Government, especially in cases of proposed variations in customs and excise duties.

After the despatch of the second edition, the Accountant-General only communicates very important corrections in the light of later actuals, if they can reach Government in time. Such corrections are then considered by the Finance Department and the statement of demands finally made up for presentation to the members of the legislature. The passage of the central budget through the legislature is dealt with in the next chapter. The passage of the provincial budget in the local legislative council is dealt with in the portion relating to provincial finance. After the demands have been voted and considered by Government and funds appropriated (by the Executive Government) for non-voted items they are finally printed off. These are the final budget estimates for the year and are hence forward the authority for the incurring of expenditure (under proper sanction) by the various departments of the administration.

CHAPTER 3.

THE VOTING OF THE BUDGET.*

Date of presentation of the budget.—The budget, after having been passed by the Executive Government, is presented, under section 67 A (1) of the Government of India Act, to the Legislative Assembly and the Council of State on a day in each year fixed by the Governor-General under the Statutory Rules for either chamber. Usually this date is fixed sometime in the beginning of March and is so arranged that the voting of the demands as well as the passing of the Finance Bill may both be completed before the commencement of the next financial year. For the years 1921-22, 1922-23 and 1923-24 the budget was presented on each occasion on the 1st March.

THE PRESENTATION OF THE BUDGET AND THE FINANCE MEMBER'S SPEECH.

The presentation of the budget is simultaneous in both the chambers. The Finance Member, usually, is nominated as a member of the Legislative Assembly and introduces the budget himself in the Assembly. In the Council of State the budget is introduced by the Financial Secretary, being a

* The remarks in this chapter apply in their entirety only to the voting of the central budget. For the voting of the provincial budget see the section relating to control over budget in the portion relating to provincial finance.

member of that House. The speech of the Finance Member in introducing the budget differs both in substance and in length from the budget speech made by the Chancellor of the Exchequer before the Committee of Ways and Means of the House of Commons in England, sometime in April or May, after the commencement of the financial year to which it relates. In England the Chancellor of the Exchequer deals with the expenditure estimates in the most general terms, the estimates of some of the spending departments having already been presented to the House of Commons during February, March and April and discussed in the Committee of Supply and expounded to the Committee—consisting of the whole House—by the Member (concerned) of His Majesty's Government. The Chancellor of the Exchequer in his budget speech usually deals with the revenue estimates of the coming year and expounds the ways and means plan of the Government, namely, the method of financing the expenditure of the various spending departments by additions to, or alterations in, the existing scale of taxation. In India, owing to the fact that both expenditure as well as revenue estimates are presented at one and the same time, the Finance Member's speech is longer and more detailed. The speech usually deals with the following points:—

(1) The agricultural, trade and general economic conditions of the year just about to close.

(2) Important variations between the budget and revised estimates of the revenue and expenditure of the year just about to close. Similar variations in the surplus or deficit of the closing year are also brought out.

(3) The revenue and expenditure estimates for the coming year. Proposals for meeting the deficit or disposing of the surplus, as the case may be, are also expounded.

(4) Variations in the ways and means estimate of the year about to close from the plan expounded at the previous budget session.

(5) Ways and means estimate* of the coming year.

Accompanying the speech are several figured statements by major heads of accounts. These statements, however, are of no help in understanding or criticising the estimates, for which purpose much detail is required. Such details are furnished in a blue book, called "Detailed estimates and demands for grants for the expenditure of the Central Government, charged to revenue and capital and also of disbursements of loans and advances" for the coming financial year.

In this book details only of the civil estimates are given. The details with regard to railways, posts and telegraphs and military services are given in separate volumes, which are also supplied to the

* This estimate includes not only revenue and expenditure but also all transactions under capital, debt and remittance heads and shows how Government expects to finance all the anticipated outgoings during the coming year.

members of both chambers of the Indian Legislature at the time of presentation of the budget.

In addition, a memorandum explaining the details of the estimates—civil, railway, posts and telegraphs, and military—is also presented to the members. In this memorandum each major head of revenue and expenditure as well as the capital heads are dealt with separately and under each major head figures for the important minor heads are given and important variations in the budget figures of the coming year from the figures in the revised estimates of the current year are explained. The ways and means estimates, for India as well as England, are also given and details brought out of the important transactions affecting those estimates.

THE ESTIMATES IN THE LEGISLATIVE ASSEMBLY.

There is no discussion of the budget on the day on which it is presented to the legislature. After its presentation the budget is dealt with by the Assembly in two stages, namely :—

(1) A general discussion, and

(2) The voting of demands for grants.

THE GENERAL DISCUSSION OF THE BUDGET.

On a date fixed by the Governor-General, which is usually about a week after the presentation of the budget, and for such time as the Governor-General may allot for the purpose—which is usually two days for the Legislative Assembly—there is a general discussion of the budget as a whole or any question of principle involved therein, but not of the details of the

budget. A discussion of details is reserved for the second stage, when the particular demand to which the detail relates is submitted to the vote of the Assembly. Further, no motion can be moved at this stage, nor can the budget be submitted to the vote of the Assembly. In this general discussion even such subjects as are non-votable under section 67 A (3) of the Government of India Act are included, if the Governor-General so directs. Such permission of the Governor-General is communicated to the Assembly by means of a message from His Excellency which is read out to the House by the President. A time limit of 20 minutes is usually prescribed for speeches at this stage of the budget debate, and may be further modified if the programme so requires. The speeches made at this stage enable the Government to see the lie of the land and judge as to how their budget proposals may be dealt with in subsequent stages by the House. This is of some importance as the Government is in a minority in the Legislative Assembly and the voting of the demands is exclusively in the hands of the Assembly, the Council of State* having no *locus standi* in the matter. The debate is closed by the Finance Member, who has a general right of reply at the end of the discussion.

THE VOTING OF GRANTS.

After this discussion is over, commences the second stage of the budget debate, *viz.*, the voting of grants, for which purpose the rules permit the

* There is a small elected majority in the Council of State.

allotment of a maximum number of 15 days* by the Governor-General. Not more than two days can be allotted to the discussion of any one demand and as soon as the maximum limit of time for discussion is reached, the President is, under the rules, required to put forthwith every question necessary to dispose of the demand under discussion. Similarly, if the last day of the days allotted for voting of grants is reached and the discussion is not finished, the President is required to put forthwith at 5 p.m. on that day every question necessary to dispose of all the outstanding matters in connection with the demands for grants.

Up till recently there was no order fixed for the presentation of each demand, which naturally led to some inconvenience to non-official members. But during the discussion of the demands in March 1923 this was remedied and the practice now is for the Leader of the House† to confer informally with non-official members of the various parties, consult their convenience and then issue a list giving the order in which the demands for grants are to be taken. This has been adopted on the analogy of the practice in the British House of Commons, and is based on the feeling that important subjects should be first disposed of, so that when the final day comes the House may not be hurried in their disposal.

* The number of days actually allotted in 1921 was six, in 1922 five and in 1923 six. This is considered inadequate in certain quarters. The minimum number allotted in England for the purpose is twenty.

† The Leader of the House is usually the Senior amongst the members of the Governor-General's Executive Council who are nominated as members of the Legislative Assembly.

The rules are silent regarding the composition of individual grants, but the practice hitherto has been to submit to the vote of the Assembly separate demands for expenditure under each major head of account. Each demand is usually introduced by the Member of the Governor-General's Council in charge of the subject and is in the following form :—

"that a sum not exceeding Rs.   be granted to the Governor-General in Council to defray the charge which will come in course of payment during the year ending the 31st of March 19   in respect of   ". (Here the major head of account is stated.)

Demands for grants are made, and votes taken, for expenditure* estimates, capital expenditure estimates, as well as for estimates of disbursements under debt and remittance heads.† No votes are taken for receipt estimates. The taxation proposals of the Government are dealt with in connection with the Finance Bill, but the legislature—as is the case in England also—does not go into the figures under revenue heads or alter them on the ground that the estimates are not accurate. The proper estimating of the receipts is left entirely to the Executive Government. The legislature only authorises the Government to levy certain taxes under conditions approved

* The term 'expenditure' used here includes also (a) refunds of revenue, and (b) working expenses, though these are ultimately taken in reduction of revenue receipts.

† In each demand, only the votable portion is included. No demand is made for the non-votable items, which occur practically under every major head of account, while certain major heads, as will be explained later on, are entirely non-votable.

by them. Whether they receive more or less is the concern of the executive, though, of course, if they receive very much more than they require, an explanation of the extra taxation imposed on the people will naturally be demanded at the next budget session, when the facts are known. In accordance with English parliamentary practice, it has been laid down that demands for grants must emanate from the Executive Government* and not from private members. And when such a demand is made, the Legislative Assembly may refuse its assent to it or reduce it, but may not increase it or alter its destination. In cases where the Assembly is of opinion that expenditure on a particular item should be incurred or increased (if the item is already in the estimates), it may pass a resolution making that recommendation to the Governor-General in Council and if the resolution is accepted by the Government that particular expenditure may be brought on the estimates. But such recommendatory resolutions are no part of the budget discussion and can only be moved on days allotted for the purpose by the Governor-General. The position is exactly the same as of the British House of Commons and of the legislatures in the self-governing Dominions.

Moreover, even apart from the budget, it is, under section 67 (2) (*a*) of the Government of India Act, not lawful, without the previous sanction of

* All such demands are subject to the further restriction that if any expenditure requires the sanction of the Secretary of State in Council, it should not be included in a demand unless the required sanction has alread been obtained.

the Governor-General, to introduce at any meeting of either chamber of the legislature any measure imposing any charge on the revenues of India. There is thus a double check over expenditure, by the Executive Government and by the Legislative Assembly. No fresh expenditure under votable heads can ordinarily be incurred unless both the Assembly and the Government are in agreement.

Non-votable Items in the Budget.

There are, however, certain items, referred to in section 67 A (3) of the Government of India Act, which are excluded from the vote of the Assembly and funds for such items are appropriated solely by the order of the Governor-General in Council.

The excepted items* are as follows :—

(*i*) interest and sinking fund† charges on loans ;

(*ii*) expenditure of which the amount is prescribed by or under any law ;

(*iii*) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council ;

(*iv*) salaries of chief commissioners and judicial commissioners ;

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* It will be obvious from a perusal of items (*i*) to (*v*) that the 'Home charges'—meaning thereby the expenditure out of Indian revenues incurred by the Secretary of State and the High Commissioner in the United Kingdom—are not, as is sometimes stated, wholly non-votable. A portion of this expenditure is regularly put to the vote of the Assembly under the rules.

† It has been decided that railway annuities are non-votable under this sub-clause.

(*v*) expenditure classified by the order of the Governor-General in Council as—

(*a*) ecclesiastical;

(*b*) political;

(*c*) defence.

Under section 67 A (4) of the Government of India Act, the Governor-General has the final voice in deciding, in cases of doubt, whether a particular item does or does not relate to the above heads.

The above provisions introduce an element of complexity in the classification of items in the estimates and accounts. Under Rule 20 of the Auditor-General's Rules, the Auditor-General decides in disputed cases under what major or minor head in the accounts an item should be classified. Such a decision also governs the classification of that item in the estimates, as it is a fundamental rule that the classification of items both in the estimates and the accounts should be the same. But under section 67 A (3) (*v*) of the Government of India Act the Governor-General in Council has the power to issue orders classifying as 'political' expenditure which is not recorded under the major head "Political"; or classifying as 'ecclesiastical' expenditure which is not recorded under the major head "Ecclesiastical"; or classifying as 'defence' expenditure which is not recorded under any major head in the 'Military Services' section of the accounts.

The term 'salaries' used in sub-section (3) of section 67 A has been interpreted by the Governor-

General in Council as including the following emoluments :—

"(a) Any emoluments classed as pay under Fundamental Rule* 9 (21);

(b) Any emoluments classed as leave salary under Fundamental Rule 9 (12);

(c) Any emoluments drawn monthly by a Government servant which are classed as compensatory allowances under Fundamental Rule 9 (5) except travelling allowances as defined in Fundamental Rule 9 (32)."

(No. 73, Audit Instructions issued upto 31st October 1922).

A very interesting discussion took place in the Legislative Assembly on votable and non-votable subjects on the 26th January 1922 on a resolution moved by a non-official member in the following terms :—

"This Assembly recommends to the Governor-General in Council that such steps as may be necessary may be immediately taken to abolish the distinction between 'votable' and 'non-votable' items in the budget, and to submit the whole of the budget to the vote of this Assembly."

The main argument in support of the above resolution was based on the terms of sub-section (3) of section 67 A itself, which runs as follows :—

"The proposals of the Governor-General in Council for the appropriation of revenue or moneys

* One of the sets of rules framed by the Secretary of State in Council under section 96-B of the Government of India Act is known as the Fundamental Rules. The Rules referred to above are reproduced as Appendix A to this chapter.

relating to the following heads of expenditure shall not be submitted to the vote of the Legislative Assembly, nor shall they be open to discussion by either Chamber at the time when the annual statement is under consideration. unless the Governor-General otherwise directs."

The construction placed on this sub-section by the mover and by most of the non-official members was that it was within the power of the Governor-General to throw open even the excepted items (*i*) to (*v*) to the vote of the Assembly. In support of this view it was contended that from the wording and punctuation of the opening sentence of the sub-section it was clear that the words "unless the Governor-General otherwise directs" were intended to refer to the submission of the excepted items to the vote of the Assembly as well as to their discussion by either Chamber. It was further pointed out that even under the Morley-Minto reforms the entire budget, including the items now excepted, was open to discussion by the legislature and that for a mere discussion no permission of the Governor-General was required. The Montagu-Chemlsford reforms, it was observed, were a manifest extension of the powers of the legislature, and that a contrary interpretation would result in the curtailment of the powers of the reformed legislature which, it was held, could not have been intended. This construction was, however, not accepted by Government, and, on their behalf, the Finance Member, while

acknowledging that there was a reasonable doubt, pointed out that another construction might also be put upon sub-section (3), *viz.*, that the excepted heads could not in any case be submitted to the vote of the Legislative Assembly, but a discussion of those heads was possible, with the permission of the Governor-General. In support of this view he pointed out that in the Bill, as published in May 1919, there was no clause with regard to the placing of the budget before the vote of the Assembly. Such a provision was inserted on the 31st October 1919, when the Secretary of State introduced at a meeting of the Joint Parliamentary Committee—which was then considering the Bill—a clause providing for the voting and discussion of the central budget, subject to the proviso that—

> "Nothing in this section shall require proposals to be submitted to the Imperial Legislature in regard to expenditure which is declared, by rules under the principal Act, to be a permanent charge on the revenue at the disposal of the Governor-General in Council."

On November 3rd this clause was re-drafted as follows:—

> 'The proposals of the Governor-General in Council for the appropriation of revenue or moneys relating to heads of expenditure specified in the second schedule of the Act, shall not be submitted to the vote of the Assembly, nor shall they be open to discussion by either Chamber.'

So that even at this stage the exclusion was categorical, the main change was that the subjects which were reserved were to be declared by schedule instead of by rule.

Then came the third stage on the 10th November when this clause took its present form. The fact that so far as voting was concerned there was no discretion vested by any of the previous drafts and that the clause referring to the discretion follows immediately after the clause regarding general discussion were held by Government to indicate that it was not unreasonable to suppose that the discretion referred entirely to the discussion and not to the vote. Sir Malcolm Hailey further pointed out that in their report on the Bill the Joint Committee in referring to this clause used the following words :—

'The Committee consider it necessary (as suggested to them by the Consolidated Fund Charges in the Imperial Parliament) to exempt certain charges of a special or recurring nature, that is to say, the cost of defence, the debt charges and certain fixed salaries, from the process of being voted.'

Mention was also made of the speech by Lord Sinha as Under-Secretary of State for India, in introducing the Bill in the House of Lords, in which he said :—

'Certain heads of expenditure are not to require the annual vote in much the same way as the consolidated fund in this country.'

Attention was also invited to the subsequent tenour of the Act itself, *viz.*, to sub-section (5) of section 67 A which runs as follows :—

"The proposals of the Governor-General in Council for the appropriation of revenue or moneys relating to heads of expenditure not specified in the above heads shall be submitted to the vote of the Legislative Assembly in the form of demands for grants."

It was pointed out that it was clear from the above sub-section that the Act provided no procedure by which matters such as defence, political or other reserved expenditure could be put to the vote of the House or brought before the Assembly.

In view, however, of the fact that Government itself felt a reasonable doubt in interpretation, the Finance Member informed the House that they were taking steps to have the matter placed before the Law Officers of the Crown in England.

The resolution was, however, passed by the Assembly at that sitting. On the 28th February 1922, the Finance Member intimated to the Assembly that the Law Officers, who had been consulted by the Secretary of State, were of the view that it was not competent for the Governor-General to direct that items (*i*) to (*v*) in sub-section (3) should be submitted to the vote of the Legislative Assembly.

The proportion of votable to non-votable expenditure is often the subject of much comment. From the figures of the 1921-22 budget, it was pointed out by the Finance Member during the budget debate that year that the votable expenditure totalled Rs. 113 crores (chargeable to revenue Rs. 94 crores and chargeable to capital Rs. 18 crores), and the non-votable expenditure totalled just over Rs. 105 crores (chargeable to revenue Rs. 105 crores and chargeable to capital Rs. 6 lakhs), or, in other words, about half the expenditure was non-votable, and the other half was votable.

It may be as well to point out here that on all the three occasions during the budget debates of 1921-22, 1922-23 and 1923-24 the Governor-General accorded permission for the discussion of the non-votable items by both the Chambers. During the debate on the demands for grants in March 1923, it was ruled by the President that non-votable heads could be discussed only on the first two days of the general discussion and not on the demand for grants, but it was subsequently agreed, at the request of the Leader of the House and as an interim arrangement, that the House be allowed to discuss on nominal cuts relating to votable expenditure general questions relating to non-votable expenditure.*

MOTIONS ON THE VOTING OF GRANTS.

It has been stated in a previous paragraph that it is within the competence of the Assembly to move motions for reduction of grants. Such motions are made with two objects; one is to effect economy, the other to obtain satisfaction or elicit information from Government on a particular point arising from the estimates. In the first case a motion specifying the amount which it is intended to reduce from a particular item is made. In the second case a motion of reduction of a nominal amount, say Rs. 100, is made, which is pressed to a division if the Government reply is considered unsatisfactory and may, in some cases, amount to a motion of censure. This is in accordance with the practice of the House of

*The result of this convention is particularly noticeable in the case of military and political expenditure, which though non-votable are subject to criticism by the Assembly.

Commons where such motions in the Committee of Supply are very common, the other class of motions, namely, for reduction of specific amounts with a view to economy or retrenchment, being seldom resorted to. In fact, the procedure of the House of Commons also is such that motions are sometimes made nominally for reduction, but really for an increase in the vote. This is because the rules permit of no other motion on which a discussion on a particular item included in a demand can be raised and the voting stage may furnish the only occasion when such a discussion could be raised throughout the whole year.

In the House of Commons, if it is desired to express dissatisfaction with the policy of the Government in any particular department, the procedure adopted is to propose a motion of reduction of a nominal amount, £ 100 usually, in the salary of the Cabinet Minister concerned, when the estimates pertaining to his department are under discussion. But the salaries of the members of the Governor-General's Executive Council being non-votable, such a procedure would be out of order in the Legislative Assembly*. If any non-official member wishes to make such a motion he would have to resort to the ordinary resolution procedure, *viz.*, to move a recommendatory resolution on the subject, which he can do, subject to the rules and standing orders, on any day allotted for the purpose by the Governor-General.

* In the provincial legislative councils, however, motions for reductions in the salaries of Ministers are in order and have been made.

POWER RESERVED TO THE EXECUTIVE.

The demands as voted by the Legislative Assembly are submitted to the Governor-General in Council, under sub-section (7) of section 67 A of the Government of India Act. The Governor-General in Council is empowered by this sub-section to restore any amount cut down by the Assembly, if he thinks that the full provision *is essential to the discharge of his responsibilities.** This power has already been exercised by the Governor-General in Council, *e.g.*, in restoring the demand for Rs. 114 lakhs under working expenses of Railways and for Rs. 3 lakhs for the Public Services Commission, in connection with the budget estimates for 1923-24.

Apart from the above statutory provision, the Governor-General himself has power, in cases of emergency, under sub-section (8) of section 67 A, to authorise such expenditure (not provided in the budget at all) as may in his opinion be *necessary for the safety and tranquillity of British India or any part thereof.* Occasion for the use of this emergency power has not yet arisen.

The true purpose of sub-section (8) was explained officially during the course of a debate in the Legislative Assembly on the 10th July 1923 in the following terms :—

"This Assembly is not continuously in session throughout the year. Were this Assembly to continue to be in session throughout the year there would be no occasion for resort to

* The difference in the circumstances under which action can be taken under sub-sections (7) and (8) respectively of section 67 A deserves to be noted carefully.

sub-section (8). But it may arise, when this Assembly is not in session, that expenditure must be incurred. There are long intervals of time when this Assembly is not sitting and events may then occur which may affect the safety or tranquillity of British India. It is not possible to call a sudden meeting of the Assembly, and in those cases the Governor-General takes the place of the Assembly and authorises expenditure of money."

(Legislative Assembly Debates, Vol. III, p. 4457.)

Action on the part of the Governor-General in Council under sub-section (7) or the Governor-General under sub-section (8) is not open to discussion in the Legislative Assembly and is merely reported by the Finance Member for the information of the House.

Supplementary Grants.

A figure in an estimate once passed by the Assembly cannot be altered, except as provided by the statutory rules. If, therefore, Government subsequently finds that any item has been inadvertently omitted from the demands for grants or that demands which could not be foreseen at the time of presenting the budget have since arisen, or that the provision made for any item is likely to prove insufficient, the same formality has to be gone through as in the case of original demands and Government has to make a fresh demand—known as a supplementary demand—and submit a fresh estimate to the Assembly known as a supplementary estimate. That such should be the case is only natural, considering the fact that the original estimates are framed from 6 to 18 months in advance of the actual

occurrence of the facts and the nature of the charges for which provision has to be made is so vast and varied. To make such an accurate forecast so many months ahead of all the needs of the administration that the actual expenditure should work out to be no more and no less—for over-estimating also is regarded as a financial delinquency—than the budget estimate is more than any human being can accomplish. Supplementary estimates are none the less looked upon with particular jealousy by popular legislatures, because they tend to diminish the control of the legislature, and, if for large sums, really amount to a breach of contract between the government and the legislature. "It is a sound principle, that one, and only one, estimate of national expenditure should be laid before Parliament during each session; for to render Parliamentary control effectual it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account" (Colonel Durell's Parliamentary Grants, Chapter I, page 49). Human nature being what it is, there is a disposition to believe on the part of the spending departments that a bitter pill if presented entire would very likely be thrown out, but might have a chance of being swallowed if presented in broken pieces. To the executive government also supplementary estimates prove very inconvenient at times, as they tend to open up healed sores and rake up unpleasant controversies. As Mr. Austen Cham-

berlain said in the House of Commons in August 1921:—"No Government likes supplementary estimates. Supplementary estimates are the weak joint in the armour of any Government." But supplementary estimates are an inevitable evil and perhaps the lesser of the two evils confronting the legislature. For, if such estimates were to be totally stopped, the executive would, by framing liberal estimates of expenditure, heap up sufficient provision for reserves for unforeseen contingencies. In this manner they would avoid the necessity of a reference to the legislature altogether, whereas when a supplementary estimate is presented the legislature gets an opportunity of scrutinising and expressing its opinion on the matter. As Sir Malcolm Hailey said in his speech on the 22nd September 1921 in the Legislative Assembly in presenting certain supplementary estimates for the first time under the new constitution :—

> "Let me tell the House that I have in my department men who, if I would allow them to do so, would be capable of putting up a budget which would easily defeat the scrutiny and defy the criticisms of the House. They could conceal among the innumerable items which go to make up one budget a liberal provision of reserves that the House would never detect and which would relieve one of the embarrassing necessity of having subsequently to produce demands for supplementary grants. But, Sir, this is not the spirit in which we frame our budget. *We frame our budget with the deliberate intention of asking the country for only so much money as we really need to spend.*"

The subsequent procedure in the Assembly with regard to supplementary estimates is exactly the same as for the original estimates, but with this

difference that questions of policy accepted in the original estimates cannot be raised again while discussing the supplementary estimates.

Excess Grants.

Sometimes it so happens that the likelihood of an excess occurring over a vote is not detected till after the expiry of the financial year. In such a case a supplementary estimate cannot be presented. To regularise the excess, however, an 'excess grant' is required, the procedure with regard to which is the same as for a supplementary grant.

Token grants.—When a demand is made for a supplementary or excess grant, and it is desired to re-appropriate money to meet it from another grant, the demand made is for what is known in parliamentary language as a 'token grant.' That is to say, the demand is only for a nominal sum of say Rs. 100 and it is explained in a separate statement how the balance will be met. That is done merely to bring the expenditure in question within the purview of the legislature. If the proposal is approved by the legislature, the re-appropriation* is made, and a formal record thereof is in the report of the Public Accounts Committee, so that the re-appropriation also comes formally within the cognisance of the legislature.

The Finance Committee.

The Finance Committee of the Legislative Assembly is one of the several standing committees

*In its report on the accounts of 1921-22 the Central Public Accounts Committee recommended that no reappropriations should be proposed in placing the supplementary grants before the Assembly.

of the legislature constituted in pursuance of the recommendation made in paragraph 285 of the Montagu-Chelmsford Report. This Committee is not mentioned either in the Government of India Act or in the statutory rules framed thereunder. Consequently, both its constitution and functions are determined by the Government in consonance with the wishes of the Legislative Assembly—the Council of State having no voice or representation on this Committee.

The Committee at present consists of 10 elected members. The Chairman is nominated by the Governor-General.

The functions of the Committee are as follows :—

(*a*) To scrutinise proposals for new votable expenditure* in all Departments of the Government of India ;

(*b*) to sanction allotments out of lump sum grants ;

(*c*) to suggest retrenchments and economy in expenditure ; and

(*d*) generally to assist the Finance Department of the Government of India by advising on such cases as may be referred to it by that Department.

Cases in which supplementary grants are required are also referred to the Finance Committee for opinion before they are submitted to the vote of the Legislative Assembly. The passage of proposals

* The meaning of the term 'new expenditure' was explained by the Finance Department in a memorandum placed before the Finance Committee on the 29th June 1923 and accepted by the Committee. The position is that all proposals for new votable expenditure do not come before the Finance Committee but only important proposals.

through the Assembly is facilitated if it can be said on their behalf that they have been accepted by the Finance Committee.

With regard to new votable items of expenditure, exception is made in the case of such items as must be urgently sanctioned, including items which the Governor-General is empowered to sanction under section 67 A (8) of the Government of India Act. Non-votable expenditure is not included within the purview of the Committee, but it is optional with the Government to submit such non-votable items to the Committee as they consider fit. Financial proposals relating to the all-India services are also not submitted to the Finance Committee, as, under sections 96 B and 96 C of the Government of India Act, discretion has been reserved to the Secretary of State in Council to frame the necessary rules, etc.

Financial matters involving confidential negotiations also are necessarily excluded from the purview of the Committee.

The Finance Bill in the Legislative Assembly.

The voting of the demands completes only one part of the budget debate. It is obviously not enough to grant supplies to the Executive Government. Ways and means should also be found for raising the necessary funds. This is treated as a separate part of the budget procedure. In countries with parliamentary institutions a clear distinction is

maintained between the right to grant supplies and the right to provide the necessary funds therefor. The same is the case in India. But whereas in England the supplies voted are embodied in an Appropriation Act, in India no such legislation is required. The voting of the demands completes the process of granting supplies and no statutory enactment is required to legalise the voting.

In providing funds for the needs of the administration recourse is had to fresh taxation or alterations and additions in the existing scale of taxation, which, in most cases, involve legislation and, therefore, the approval of both chambers of the legislature, under section 63 of the Government of India Act.

It had, prior to the Reforms, been the custom of the Government of India to put their proposals for taxation before the legislature in separate bills, but, since the inauguration of the new era, a single bill, known as the Finance Bill, is introduced every year by Government in the Legislative Assembly, in which they embody all the taxation proposals which they consider expedient or necessary to submit to the decision of the legislature. The main reason for the change is that it facilitates discussion and concentrates attention on the financial position of the country. It also saves time, for if six or seven separate bills were to be introduced, their passage through both the chambers would take much time and the discussion may not be finished within the

30 days allowed by the Provisional Collection of Taxes Act, to which a reference will be made in the succeeding paragraphs.

Legislative Procedure with regard to the Finance Bill.

The procedure with regard to the Finance Bill is just the same as for any other bill. Leave is first sought to introduce the Bill in the Assembly. After the leave has been granted the Bill is formally introduced. After the voting of the demands is finished, the Finance Bill is taken up in the Legislative Assembly. The discussion is opened by a motion by the Finance Member that the Bill be taken into consideration. On this motion a general discussion on the entire expenditure or taxation policy of the Government is in order and usually takes place. After the Assembly has agreed to the motion, the Bill is taken into consideration and discussed clause by clause. Each clause (the title and preamble coming last) is put to the House and amendments thereto considered. After the amendments and the substantive question with regard to each clause have been disposed of, new clauses (not being part of the Bill as introduced) are taken up and similarly discussed and dealt with. After the various clauses have been finished the schedules attached to the Bill are taken up and discussed in detail and amendments proposed thereto also similarly dealt with. This finishes the detailed consideration of the Bill. A motion is then moved that the Bill as amended by the House

be passed. On this motion a more or less desultory discussion takes place, after which the question is put and the Bill is passed by the House. The Bill is then sent to the Council of State. The procedure in the Council of State is exactly the same as in the Legislative Assembly and the powers of the Council are also the same as those of the Legislative Assembly in this matter. After the Bill has been agreed to by both chambers it is submitted to the Governor-General. When the Governor-General has given his assent, the Bill is treated as an Act, under the provisions of section 68 (2) of the Government of India Act.

Inclusion of New Matter in the Finance Bill.

An interesting discussion took place on this subject in the Legislative Assembly during the 1922 budget session. The proposal to amend the Paper Currency Amendment Act, 1920, was not included in the original Finance Bill as introduced by Government. This amendment was proposed by a non-official member. A point was raised during the discussion that as no mention of the Paper Currency Act had been made either in the title or the preamble of the Bill the motion was one for the amendment not of the Finance Bill but of an independent Act and was therefore of the nature of an amending bill. As such it was held that it could not be in order, for, under the rules, any member, other than a member of the Government, desiring to move for leave to

introduce a bill has to give notice of such intention of at least one month. This difficulty was, however, got round by permission having been given to the Finance Member to move the same amendment, which was allowed to pass. It may, therefore, be taken as settled that if Government proposes to add new matter to the Finance Bill, it will be allowed to do so while the Bill is under consideration in either chamber.

THE TITLE AND PREAMBLE OF THE BILL.

Owing to the fact that the Finance Bill is subject to alteration and addition during its passage in either chamber of the legislature, the exact phraseology of the title and preamble of the bill cannot be settled until all the clauses have been dealt with. The point will be clear by an illustration from what actually took place in 1922. In the Finance Bill as first introduced the words used in the title and preamble with regard to the duty on salt were :—' to enhance.' As, however, the legislature did not agree to the enhancement the word ' enhance ' was changed into ' fix.' Also in the same Bill, as originally introduced, the Cotton Duties Act, 1896, was proposed to be amended by raising the excise duty on cotton goods and consequently it was stated both in the title and preamble that it was a bill ' further to amend the Cotton Duties Act, 1896 '. As, however, the Assembly did not agree to the increase, these words were deleted from the title and the preamble of the Finance Act, as finally passed by both the chambers.

Duration of the Finance Act.

In accordance with the practice of popular legislatures the Finance Act in India expires at the end of the financial year to which it relates, and this is definitely provided in the Act itself. An exception is, however, made in the case of customs and excise duties, which remain in force till the legislature prescribes otherwise. By limiting the duration in this manner, the legislature gets an opportunity every year of reviewing the entire taxation policy of the Government. Besides, a discussion on the Finance Bill covers the entire field of administration and thus gives an opportunity to the legislature to have their say on matters of general principle or policy which have any bearing on the finances of the country. Moreover, by exercising its privilege of not granting funds in their entirety, the legislature practically forces the Government to retrench and economise in its expenditure, particularly on non-votable items, which are not much liked by the Assembly and have been spoken of in the debates as 'untouchables.'

The exemption of customs and excise duties from the operation of the duration clause is due to the feeling that trade and commerce would be seriously upset if uncertainty prevailed in the minds of business men and they did not know what rates would prevail at the termination of each financial year.

The Provisional Collection of Taxes Act and the Finance Bill.

The Finance Bill is introduced in the Legislative Assembly the same day that the budget is presented. At the end of the Bill a clause is inserted declaring that it is expedient in the public interest that the Bill should have temporary effect under the provisions of the Provisional Collection of Taxes Act, 1918. This clause is inserted to give retrospective effect from the date of the presentation of the budget to changes proposed in customs and excise duties. Even prior to the passing of the Provisional Collection of Taxes Act, it had been the practice to give effect by executive orders to the proposed changes in taxation from the date of introduction of the budget in the Legislative Council, without waiting for such changes to be formally embodied in the law, which necessarily took some time. Such a step was and is obviously necessary in order to avoid loss to Government by the passing of goods through the Customs or the removal of goods from bond in the interval between the introduction and the passing of the Bill. Executive regulation did not, however, invariably prevent losses to Government, as some importers objected to paying duty at the higher rates pending the passing of the Bill, and when the Bill was passed with retrospective effect it was not always possible to recover the difference between the lower rate actually paid and the higher rate due under the new Act. A similar situation had already arisen in England

when the late Mr. Gibson Bowles refused to pay, without fresh legal sanction, the income tax which is renewed in England every year. The case went to the Courts and they decided that, custom or no custom, there was no legal authority to exact income tax or any new tax until the resolution of the Committee of Ways and Means had been clothed by the Finance Act with the force of law. To provide for such contingencies the Provisional Collection of Taxes Act was passed by Parliament in 1913. The Indian Act was passed in 1918 and follows the lines of the English Act, but with this difference that while in England retrospective effect to any fresh measure of taxation can only be given from the date of passing of the resolution to that effect by the Committee of Ways and Means of the House of Commons, in India retrospective effect can be given from the date of introduction of the Bill in either chamber of the legislature; or, in other words, from the date of presentation of the budget, as both these events are simultaneous. The Indian Act provides that before its provisions can have effect with regard to a particular bill a declaration should be inserted in the Bill itself that it is expedient in the public interest that the Bill should have temporary effect under the provisions of the Provisional Collection of Taxes Act. Such a declaration is accordingly inserted in the Finance Bill as introduced in the legislature. The provisions of this Act apply only to impositions or variations of taxes in the nature of customs or excise

duties. Retrospective effect can, under the Provisional Collection of Taxes Act, be given to a bill for a period of 30 days only. Thus the Government has to get the Finance Bill passed through the legislature within a period of 30 days from the date of its introduction. This usually means that the Finance Bill has to be passed in all its stages through both the chambers during the last 10 days of March, and the difficulty is apt to become serious if a constitutional deadlock arises between the two Houses over the Bill. If this period of 30 days is over and the legislature has not dealt finally with the Bill, all the duties realised under the provisions of this Act have to be refunded. If the bill is passed into law by the legislature in a modified form, the Bill has effect under the Provisional Collection of Taxes Act as so modified, that is to say, if the legislature reduces the taxation proposed by the Government any duty collected in excess has to be refunded.

From the Act as finally passed by both the chambers of the legislature, the declaratory clause with regard to the application of the Provisional Collection of Taxes Act is deleted as being unnecessary.

Power of either chamber to increase taxation.—On the 21st March 1921, the President of the Council of State gave the following ruling on the question whether an amendment to the Finance Bill which has the effect of increasing taxation can be moved

by a member other than a member speaking on behalf of Government:—

"I think it will be quite clear to Honourable Members if they refer to section 67A (2) of the Government of India Act that the framers of that Act have therein given statutory expression to the English constitutional rule that demands for supply must proceed from the Crown, in other words, the legislature can reduce, but it cannot increase expenditure. That is quite clearly expressed in the Act. If that is so it seems to me to involve the necessary consequence that taxation to provide for such expenditure must also be initiated by the Crown. Indeed section 67 of the same Act could be construed in the same way. I think I must therefore rule that an amendment, except by a member speaking on behalf of Government, which has the effect of increasing taxation proposed by the Bill is out of order, unless it proposes taxation by way of equivalent to a tax brought by the Bill under the consideration of the Council. The point is this, that *the Crown makes a demand, the Crown proposes taxation, the Council can reduce the demand or the taxation, but it can neither increase the demand nor can it increase the taxation, except at the instance of a member of the Government.* But it is open to members who desire to vary what I may call the incidence of taxation imposed by the provisions of the Bill to propose an increase in one item compensated by a corresponding reduction in some other item."

The same question was raised in the Legislative Assembly on the 19th March 1923, when Sir Malcolm Hailey asked for a ruling on the point whether it was correct for non-official members to put forward proposals involving increases of taxation. The President ruled as follows:—

"There being nothing in the Rules and Standing Orders relating to amendments to the Finance Bill proposing increases

of taxation, we are, I think, thrown back upon the procedure of the House of Commons upon which this procedure is based. I think it is obvious that the Imperial Parliament intended to confer the same powers and the same restrictions regarding the levy and appropriation of public revenues which it itself enjoys. Neither the House of Commons nor the Legislative Assembly is empowered to increase a demand for a grant. The House of Commons is equally forbidden to increase a tax. That general principle has been laid down many times, and I think that it is one which we ought to apply here. Therefore *those amendments which propose increases of taxation will not be in order.*"

Even as regards proposing alternatives to a tax in the Bill, he ruled that such an 'alternative cannot be made effective in the present measure except on the motion of a member of the Governor-General's Executive Council'. It was also, he held, not competent for a non-official member to propose the transfer of an item from one part of the schedule to the Indian Tariff Act to another part, if such transfer had the effect of increasing the rate of duty on that item.

Reference may also be made to section 67 (2) (*a*) of the Government of India Act, which enacts as follows :—

"It shall not be lawful, without the previous sanction of the Governor-General, to introduce at any meeting of either chamber of the Indian legislature any measure affecting the public debt or public revenues of India or imposing any charge on the revenues of India."

It is doubtful whether the term 'measure' used above can be held to cover an amendment or not. Probably, it refers to an independent measure

and not to an amendment to an existing measure introduced by the Government and under discussion in the legislature. For, if the latter interpretation were correct, it would not only rule out motions to increase a tax, but also motions to reduce it, which would be evidently absurd.

The Finance Bill and Loans.

Owing to the fact that the Government of India incurs considerable capital expenditure every year which is not charged to revenue, the finance therefor is found not by means of taxes but by loans, raised both in India and in England. The Finance Bill submitted to the Legislature contains only that part of the provision of funds which is met by taxes. No reference is made by the Executive Government to the Indian Legislature* in the shape of a bill for enactment, as is the practice in England, regarding its proposals for raising loans. Mention is no doubt made in the budget speech of the Finance Member of the probable amount of loans that would be necessary during the coming year. But the figure given is purely an estimate and is liable to variation. Expenditure from loan funds is subject to the vote of the Assembly, but the Assembly has no power to decide either the amount of the loan or its terms, which are entirely within the discretion of the Executive Government.

* For further details on this point see the chapter on National Debt.

THE BUDGET IN THE COUNCIL OF STATE.

Under the old standing order No. 70 of the Council of State, the budget was only to be presented in that chamber and no discussion was permitted. Consequently, no general discussion took place on the 1921-22 budget in the Council of State. During the September session of the Council the question was taken up and an amendment in the standing order above referred to was proposed with a view to enabling the Council to discuss the budget generally, but not to vote upon it. The constitutional position of the Council with regard to the matter was quite clear. Under section 67A (1) of the Government of India Act the budget is laid before both the chambers of the legislature. Sub-section (5) of this section states that the proposals of the Governor-General in Council for the appropriation of revenue or moneys shall be submitted to the vote of the Legislative Assembly, which clearly implies that they are not to be submitted to the vote of the Council of State. But under sub-section (3) budget proposals with regard to certain heads cannot be discussed by *either* chamber, unless the Governor-General otherwise directs. It will thus be seen from the use of the word 'either' in the above sub-section that, if the Governor-General gives the necessary direction, the excepted heads can be discussed by the Council of State. This is the only provision in the Act regarding the discussion of the budget even by the Legislative Assembly. The express provision

regarding the general discussion of the budget in the Legislative Assembly is in the statutory rules and not in the Act itself. The statutory rules for the Council of State do not contain any such provision but there is nothing in the Act prohibiting such a thing. The only prohibition on the subject was in the standing order which could be amended by the Council of State, subject to the approval of the Governor-General, under section 67 (6) of the Government of India Act. The amendment proposed was passed and duly approved of by the Governor-General. The present position is that the Council is at liberty to discuss the budget as a whole or any question of principle involved therein, but no motion may be moved, nor may the budget be submitted to the vote of the Council.

Position of the Council of State with regard to the Finance Bill.

The procedure with regard to the Finance Bill in the Council of State is, as already stated, the same as in the Legislative Assembly. When the Finance Bill was first presented to the Legislative Assembly in March 1921 a very interesting discussion took place in that chamber with regard to the constitutional position of either chamber in the matter of taxation. Some members were of the opinion that, as the privilege of voting the budget was exclusively vested in the Assembly, the right of granting the necessary funds should also be vested exclu-

sively in the same body.* Reference was also made to the Parliament Act of 1911 and the position of the House of Commons vis-a-vis the House of Lords in the matter both of voting supply and granting taxation—both of which, as is well known, are vested in the same body, *viz.*, the House of Commons. As, however, there was nothing in the Government of India Act to lend colour to the view taken by some members of the Assembly, but on the contrary it is expressly stated in section 63 of the Act that no bill—and the Finance Bill is no exception to the general rule—can be deemed to have been passed by the legislature unless it has been agreed to by both chambers, it was ultimately held that the Legislative Assembly enjoyed no special position in the matter of taxation bills and that the powers of the Council of State in regard to the Finance Bill were exactly the same as those of the Assembly.

Question of Constitutional Deadlock between the Two Chambers.

Such being the position, a constitutional deadlock might easily arise in the event of either chamber not agreeing to amendments made by the other. In 1921 the Council of State made certain amendments in the Finance Bill which the Legislative Assembly was not prepared to accept. A difficult situation might have arisen, but the Finance Member made a graceful concession by sacrificing a portion

* The question was raised again in the July 1923 session of the Legislative Assembly, but the motion was defeated.

of the postal revenue which the Council of State had authorised the Government to raise, and the difficulty was averted. It is therefore of more than academic interest to know what remedy the law provides for a constitutional deadlock. There are two methods provided for such a situation, namely, (*i*) by negotiation between the two Houses, and (*ii*) by joint sitting. As, however, the number of members of the Council of State is fixed at about 60 and that of the Legislative Assembly at more than double this number it would be obvious that if it came to a joint sitting, the Legislative Assembly would, ordinarily, be in a position to out-vote the Council of State, except in the case where the majority in the Assembly is small and that in the Council comparatively much bigger. This would mean that if on a money bill—or, indeed, any other bill—the Council of State differed from the Legislative Assembly and each chamber insisted on its own view the Legislative Assembly has got the power of solving the difficulty eventually in a manner in accord with its own wishes. But as a joint sitting can be convened only after the lapse of 6 months, this remedy is of little use in the case of the Finance Bill, for the Government cannot let its taxation proposals hang in the air during that period. Therefore, the only other remedy is a conference and if the conference also is of no avail, then under the statutory rules the Finance Bill either lapses or passes to the Governor-General for such action as he might deem fit

to take under his constitutional powers. It is hardly likely, however, that a bill of such importance as the Finance Bill would be allowed by either chamber to lapse or even to pass to the Governor-General, as in that case it would forfeit its right to even such amendments as might have been acceptable to both Houses. It is, therefore, more likely that when the probability of a deadlock does arise, both the chambers realising the gravity of the matter would be prepared to agree to a compromise acceptable to both. Further, as the operation of the Provisional Collection of Taxes Act is only for a period of 30 days, Government also is interested in bringing about a settlement as soon as possible; for, if there is delay, Government would have to refund all the duties collected under the new Bill from the date of its introduction, which would result in a substantial loss to the finances of the country.

The constitutional crisis that arose on the Finance Bill during the 1923-24 budget debate was the most acute experienced in the history of the Reforms. The Bill was introduced in the Assembly on the 1st March and among other provisions contained a clause for the doubling of the salt duty from Re. 1–4 to Rs. 2–8 per maund. When, under the ordinary procedure, this clause came up for discussion in the Legislative Assembly, much feeling was roused and eventually it was thrown out. Other clauses were discussed and passed with cer-

tain amendments, and the Bill, as amended, was then passed. Government, however, did not see their way to accepting the decision of the Assembly with regard to the salt duty, and accordingly the Bill went to the Council of State with a recommendation from the Governor-General under sub-section (1) of section 67B of the Government of India Act that the doubling of the salt duty should be re-inserted in the Bill. The recommendation was accepted by the Council of State and the Bill, under section 67B (*b*) of the Government of India Act, went back to the Legislative Assembly with a recommendation from the Governor-General to pass it in the form in which it was passed by the Council of State. This recommendation of the Governor-General was, however, not accepted by the Assembly and they again deleted the original clause respecting the salt duty (which was restored by the Council of State). The Governor-General then, in exercise of the discretionary power vested in him under section 67B (1) of the Government of India Act, certified the Bill which became an Act. In the ordinary course such an Act has to be laid before both Houses of Parliament and does not have effect until it has received His Majesty's assent. As, however, it was clearly impossible to hold up the Finance Act pending discussion in Parliament, the Governor-General directed, under the proviso to sub-section (2) of section 67B of the Government of India Act, that the Finance Act should come

into operation forthwith. When action has been so taken the assent of His Majesty is not required, but the Act is subject to disallowance by His Majesty.

APPENDIX A.

Fundamental Rule 9 (5)—

Compensatory allowance means an allowance granted to meet personal expenditure necessitated by the special circumstances in which duty is performed. It includes a travelling allowance.

Fundamental Rule 9 (12)—

Leave-salary means the monthly amount paid by Government to a Government servant on leave.

Fundamental Rule 9 (21)—

(*a*) *Pay* means the amount drawn monthly by a Government servant as—

(*i*) the pay, other than special pay or pay granted in view of his personal qualifications, which has been sanctioned for a post held by him substantively or in an officiating capacity, or to which he is entitled by reason of his position in a cadre, and

(*ii*) overseas pay, technical pay, special pay and personal pay, and

(*iii*) any other emoluments which may be specially classed as pay by the Governor-General in Council.

(*b*) In the case of a military officer, pay includes the amount which he receives monthly under the following designations :—

(*i*) Military pay and allowances and staff salary ;

(*ii*) Indian Army pay and staff salary ; and

(*iii*) consolidated pay.

Fundamental Rule 9 (32)—

Travelling allowance means an allowance granted to a Government servant to cover the expenses which he incurs in travelling in the interests of the public service. It includes allowances granted for the maintenance of conveyances, horses and tents.

CHAPTER 4.

THE EXECUTION OF THE BUDGET.

Distribution of grants.—As soon as the final proof of the Estimates is sent to the press, the work of distributing the grants amongst the various disbursing and controlling officers is taken up. This work becomes somewhat onerous when lump sum reductions are made in the estimates of departmental officers, either by Government or by the legislature. Particularly is it the case when the estimates of departments, such as medical, education, police, jails, etc., are affected, as the reduction has to be spread over a large number of separate estimates by districts and over numerous detailed heads in each district.

*Communication of grants.**—The provisions of a fluctuating nature included in a grant are distributed by the Accountant-General's office and are communicated to the estimating officers by detailed heads under each major, minor and sub-head of account. A copy of the order communicating the grant is also forwarded to the Secretary to Government in the Administrative Department concerned.

Primary units of appropriation.—The scope of a grant is determined by the Finance Member. A

* The remarks in this paragraph should not be understood to apply to all Governments and provinces.

grant may or may not be co-extensive with a major head of account or it may be a combination of amounts provided under more than one major head of account.

For the purpose of watching expenditure against appropriation each grant is divided into groups which are called primary units of appropriation. The following are the more important primary units of appropriation :—

1. Pay of officers.
2. Pay of establishments.
3. Allowances, honoraria, etc.
4. Contingencies.
5. Supplies and services.
6. Grants-in-aid, contributions and donations.
7. Works.
8. Assignments and compensations.
9. Establishment charges payable to other Governments, Departments, etc.
10. Refunds of revenue.
11. Reserve.
12. Suspense.
13. Expenditure in England.

In the case of funds for expenditure upon civil works, the following heads are generally prescribed in place of (7) :—

(*a*) Original works ;
(*b*) Repairs ;
(*c*) Tools and plant.

Similarly in the case of funds for expenditure upon irrigation, navigation, embankment and drainage

works, the following heads are generally prescribed in place of (6) and (7) :—

(*a*) Works ;

(*b*) Extensions and improvements ;

(*c*) Maintenance and repairs.

It should be noted that in some provinces provision for expenditure in England to be incurred by the Secretary of State and the High Commissioner for India is included within the grant, whereas in others separate grants are obtained for the expenditure to be incurred by these authorities.

It is open to the Finance Department to prescribe primary units of appropriation other than those stated above in communicating the amounts for any particular purpose or to prescribe an entirely different set of units where such a course appears desirable.

A primary unit may include provision for both voted and non-voted expenditure, and in that case the total amount of each class of provision is separately communicated by the Finance Department.

No primary unit may contain portions of more than one grant voted by the legislature.

Secondary units of appropriation.—Each primary unit may, for purposes of financial control, be subdivided, as may be necessary, into secondary units of appropriation. For instance, the primary unit 'Original Works,' may be divided into the secondary units, major works and minor works.

It should be remembered that a primary unit of appropriation does not correspond to a minor

head of account nor a secondary unit to a detailed head of account. The classification, broadly speaking, is as follows:—

Grant.

|

Major head.

|

Minor head.

|

Primary Unit.

|

Secondary Unit.

|

Detailed head.

Appropriation.—Appropriation means the assignment, to meet specified expenditure, of funds at the disposal of the assigning authority. All sanctions to appropriation (or re-appropriation) specify the major and minor heads and the primary units of appropriation affected. An appropriation (or re-appropriation) can be authorised at any time before, but not after, the expiry of the financial year. It is intended to cover all the charges, including the liabilities of past years, to be paid during the year or to be adjusted in the accounts of it. It is operative

until the close of the financial year. Any unspent balance lapses to the Finance Department and is not available for utilisation in the following year. After the date of closing of the financial year, *viz.*, the 31st March, all cash and stock transactions are treated as pertaining to the following year, but *bona-fide* transfer entries are permissible for some months.

Re-appropriation.—Re-appropriation means the transfer of funds from one unit of appropriation to another such unit. The other remarks made above regarding appropriations apply also to re-appropriations.

Rush of expenditure in March.—Owing to the fact that unspent balances of grants—with the exception of what are known as contract grants, which are for a specified term of years and unspent balances of which are carried forward from year to year—lapse to the Finance Department after the 31st March and are not available for expenditure in the following year (unless specifically re-allotted) there usually is a considerable rush of expenditure in the spending departments in the month of March to prevent such lapses. This rush is particularly great in the Public Works Department. Unreal payments—*viz.*, payments in anticipation of work done or supplies made—and extravagance during this month are not uncommon and in their desire to spend before the 31st March the whole of the funds placed at their disposal it cannot always be said that officers receive full value for the Government money

that they spend.* This difficulty was most acutely felt in the Railway Department and the point was brought to the notice of the Acworth Committee. From the chapter on railway finance it will appear that so far as capital expenditure is concerned unspent balances are not allowed to lapse but are automatically re-placed at the disposal of the Railway Department.

Administrative sanction and budget provision.—Sanction to any given expenditure becomes operative as soon as funds have been appropriated to meet the expenditure, and does not become operative until funds have been so appropriated.

Sanction to recurring expenditure covering a specified term of years becomes operative when funds are appropriated to meet the expenditure of the first year, and remains in operation for each year of the specified term, subject to appropriation in each year.

There are thus two elements necessary before public money can be spent:—

(1) There must be an act of sanction of an authority competent to sanction;

(2) There must be an act of appropriation of funds for the purpose, by an authority competent to appropriate. It follows from the foregoing propositions—

(*a*) that it is not sufficient merely to have sanction of competent authority to the expenditure.

*Some bad cases of this class are brought to light in the Audit Reports every year.

For instance, the entertainment of a clerk may be sanctioned from the 1st April, but he cannot be entertained until the budget has been passed and the requisite appropriation of funds communicated;

(*b*) that it is not enough merely to have funds for a specific item of expenditure, such as the entertainment of a clerk passed in the budget. The expenditure must also be sanctioned by competent authority, after consultation with the Finance Department where assent has not been presumed under standing orders.

It is, therefore, incumbent on all authorities who sanction expenditure also to see that there is an appropriation of funds for the purpose, or, if not, to secure such an appropriation by the provision of fresh funds outside the grant within their control, or by transfer within their own grant, if possible.

All orders conveying sanction to expenditure have to be communicated to the Audit Officer—

(*a*) if the order is issued by an authority subordinate to Government, by that authority;

(*b*) if the order is issued by Government and is one to which the assent of the Finance Department has been presumed, by the Secretary to Government in the Administrative Department concerned, a copy being sent to the Finance Department;

(*c*) in other cases, by the Secretary to Government in the Finance Department.

These orders are scrutinised in the Audit Office both as regards the correctness of the adminis-

trative sanction and the appropriation of funds. If found incorrect in any manner, prompt steps are taken to have the matter regularised.

Special provisions for works expenditure.—In addition to the two elements pointed out above, there are two more necessary for the expenditure of public money on a civil work, *viz.*, administrative approval and technical sanction, which precede, in the order indicated above, expenditure sanction (or administrative sanction, as stated in the preceding paragraph) and appropriation of funds.

"A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and finally to be approved by, the authorities for whom the work is to be erected. This approval is called "administrative approval" and is, in effect, an order to the Public Works Department to execute certain specified works at a stated sum to meet the administrative needs of the department requiring the work. In other words, the administrative experts have to say—this work meets our requirements, and we do not consider the cost, as shown in a preliminary estimate accompanying the design submitted for administrative sanction, will be extravagant." (Paragraph 207, Introduction to Indian Government Audit.) After administrative approval is obtained the detailed estimate is prepared, which has to receive the "technical sanction" of the Public Works Department.

Technical sanction, as its name indicates, amounts to nothing more than a guarantee that the plans are structurally sound and meet the requirements of the indenting department and that the estimates are accurately calculated and based on adequate and sufficient data.

The necessity of these two preliminary stages needs no explanation. After these stages have been passed, come the remaining two stages common to other expenditure generally.

Rules regarding appropriations and re-appropriations.—Ordinarily each head of office is expected to adhere to his budget and expenditure for which no provision has been made in the budget cannot be incurred. If, however, on account of exceptional reasons expenditure, which is either not provided for in the budget or is in excess of the budget provision, has to be incurred a formal application for the provision of additional funds is necessary. The reason for considering it indispensably necessary that the outlay should be immediately incurred and not postponed to the next financial year has to be stated. It has also to be explained why the need for the expenditure was not foreseen in time for its inclusion in the budget estimates. Such funds may be provided either by fresh appropriation or by re-appropriation. In certain cases reserves for such purposes are entered under each grant, in others a lump sum reserve is placed at the disposal of the Finance Department.

A vote cannot be exceeded without the sanction of the legislature. In such cases, supplementary or excess grants are necessary. But within a vote changes may be made. In certain cases the Finance Committees have been empowered to sanction re-appropriations on behalf of the legislature. In certain other cases, the Finance Department, even though empowered to sanction an appropriation or re-appropriation, desires that the matter should be brought up before the Finance Committee for approval. This is particularly the case, if the provision sought for is for an item which has been specifically cut out or reduced by the legislature.

All powers of appropriation are subject to the further condition that, without the previous consent of the Finance Department—

(*a*) funds may not be appropriated to meet any item of expenditure which has not been sanctioned by an authority empowered to sanction it; and

(*b*) funds allotted for non-voted items of expenditure may not be appropriated to meet votable items, and funds allotted for voted items may not be appropriated to meet non-votable items*.

All powers of re-appropriation for expenditure from central revenues are subject to the condition that without the previous consent of the Finance Department—

*These remarks apply to central expenditure. In the case of provincial expenditure, the Finance Department of the local Government is empowered to sanction re-appropriations from a voted to a non-voted head if the local Government anticipates a lapse under the voted head or there is an actual surrender from the voted grant.

(*a*) an authority may not meet by re-appropriation expenditure which it is not empowered to meet by appropriation;

(*b*) no re-appropriation may be made from one grant voted by the legislature to another such grant,

(*c*) funds allotted for non-voted items of expenditure may not be re-appropriated to meet votable items, and funds allotted for voted items may not be re-appropriated to meet non-votable items;

(*d*) no re-appropriation may be made to meet any expenditure, other than contingent expenditure, which is likely to involve further outlay in a future financial year; and

(*e*) no re-appropriation may be made from a primary unit allotted under the head Pay of Officers to any other primary unit.

Further, as questions of ways and means and exchange are involved, it has been ruled that any re-appropriation between the Indian and English portions of an allotment for a work must be immediately reported to the Finance Department.

For expenditure from provincial revenues the powers of re-appropriation are given in Devolution Rule 38 reproduced below:—

"(1) After grants have been voted by the Legislative Council—

(*a*) the Finance Department shall have power to sanction any re-appropriation within a grant from one major, minor or subordinate head to another;

(*b*) the Member or Minister in charge of a department shall have power to sanction any re-appropriation within a grant between heads subordinate to a minor head which does not

involve undertaking a recurring liability, provided that a copy of any order sanctioning such a re-appropriation shall be communicated to the Finance Department as soon as it is passed.

(2) The Finance Department shall have power to sanction the delegation by a Member or Minister to any officer or class of officers of the power of re-appropriation conferred on such Member or Minister by clause (1) (*b*) above.

(3) Copies of orders sanctioning any appropriation which does not require the sanction of the Finance Department shall be communicated to that department as soon as such orders are passed."

The subsidiary rules governing re-appropriations for expenditure from provincial revenues necessarily vary from province to province, but it is understood that conditions (*a*) to (*e*) applicable to central expenditure are also generally enforced by the provincial finance departments in regard to expenditure from provincial revenues.

Watching of actuals.—The duty of controlling the progress of expenditure as compared with the budget devolves upon the officer to whom is entrusted each particular grant, who is generally the Head of the Department and who may be regarded as the pivot of financial control* under the Reform Scheme. After him this duty devolves upon the Finance Department. As, however, actuals are best known to the Accountant-General, he can render much useful assistance in the execution of the budget plan. This is done by furnishing to the Finance Department monthly accounts showing the progressive

*A proposal has recently been made that for every item of expenditure a Government servant should be prescribed who will be responsible for the control of the expenditure under that head.

figures of receipts and payments and the provincial closing balance to the end of the month after taking into account the receipts realized and the expenditure incurred by the Secretary of State and the High Commissioner in England on behalf of the Government concerned.

As regards expenditure, the Accountant-General is also required to see that at no time during the year has the expenditure up to date under any unit of appropriation proceeded at such a rate that it is likely to exceed the allotment before the end of the year. Whenever such excessive proportionate outlay is detected, the Accountant-General is required to bring the matter to the notice of the Finance Department of the local Government (and also the Department concerned in the case of central expenditure). A watch is also kept on the revenue in the office of the Accountant-General and any large increase or falling off is reported at once.

For the ways and means purposes of the Finance Department of the Government of India, the Controller of the Currency gets telegraphic reports from each provincial Accountant-General before the 15th of each month showing the receipts and issues from the treasuries in thousands of rupees under certain main heads of revenue and expenditure, as well as under debt and remittance heads. These he consolidates for the whole of India and in this manner the Finance Department is enabled to see whether the progress of actuals with estimates

is or is not satisfactory and if not satisfactory how the situation can best be met.

In addition, a formal review of the estimates for the current year takes place four times during the year, *viz.*, at the time of preparation of the three-monthly, the six-monthly, and in the two editions of the revised, estimate. By the third week of July the three-monthly estimate is prepared by the Accountant-General * and submitted to Government. It gives the actuals of the previous three months, compares them with the estimates for those months and shows what is the likely figure for the next nine months on the best and latest information then available. By the beginning of November the Accountant-General is required to prepare the six-monthly estimate on the basis of six months' actuals plus six months' approximates. By this time the financial position is clearer and the prospects of the current year are fairly well known. The six-monthly estimate is also used for the purpose of estimating the opening balance of the next financial year, which is necessary for the purposes of the preliminary budget forecast, to which a reference has already been made in the chapter on the preparation of the budget. Reference is also invited to that chapter as regards the preparation and review of the two editions of the revised estimate.

*The responsibility for the preparation of the three-monthly or any other budgetary estimate lies on the Finance Department. The Accountant-General may advise but the Finance Department must be responsible.

CHAPTER 5.

Enforcing Accountability : The Public Accounts Committee.

It is a recognised provision in the financial systems of modern countries enjoying responsible government that there should be a review of transactions after the budget has been executed. It is clearly not enough that the budget should be passed but the execution thereof left uncontrolled to the sweet will of the executive. As Professor Bastable says in his 'Public Finance', "The most admirable provisions respecting the preparation and vote of the budget will be useless, unless there is adequate machinery to secure conformity to the determinations of the legislature."

The Independence of Audit.

The plan usually adopted to secure such conformity consists of a thorough and continuous audit of the public accounts by a body of public servants independent of the spending authorities. Great importance is attached to the independence of the auditor, who is usually treated in this respect on a level with the Judges of the High Courts of Judicature. In India the Auditor-General has been given statutory recognition by section 96 D (1) of the

Government of India Act in which it is stated that he is to be appointed by the Secretary of State in Council and is to hold office during His Majesty's pleasure. Even before the passing of the Government of India Act of 1919 the Auditor-General was independent of the Government of India in audit matters and although the Government of India had the right to nominate the officer to be appointed, that nomination had to be approved, and the appointment made, by the Secretary of State. This position was, however, the result of executive orders issued by the Secretary of State in Council. Now there is formal provision in the Act itself. So that he may have nothing to hope from the favour of the Government of India which might re-act on his independence, it has been provided in the statutory rules that, on vacating his office, the Auditor-General will not be eligible to hold any other post under the Crown in India.

Statutory Position with regard to Appropriation Audit in England.

In England, where the House of Commons votes the budget, the procedure for enforcing accountability is governed by the Exchequer and Audit Departments Acts of 1866 and 1889, as amended by the Exchequer and Audit Departments Act, 1921. Section 1 of the Act of 1921 runs as follows :—

"(1) Every appropriation account shall be examined by the Comptroller and Auditor-General on behalf of the House of Commons, and in the examination of such accounts the Comptroller and Auditor-General shall satisfy himself that the money

expended has been applied to the purpose or purposes for which the grants made by Parliament were intended to provide and that the expenditure conforms to the authority which governs it.

(2) The Comptroller and Auditor-General, after satisfying himself that the vouchers have been examined and certified as correct by the accounting department, may, in his discretion and having regard to the character of the departmental examination, in any particular case admit the sums so certified without further evidence of payment in support of the charges to which they relate:

Provided that, if the Treasury desire the vouchers or any of them to be examined in greater detail, the Comptroller and Auditor-General shall take action accordingly.

(3) If at any time the Comptroller and Auditor-General is required by the Treasury to ascertain whether any expenditure included in any appropriation account is supported by the authority of the Treasury, he shall examine that expenditure with that object, and shall report to the Treasury any expenditure which appears upon the examination to have been incurred without such authority, and any such unauthorised expenditure shall, unless sanctioned by the Treasury, be regarded as not being properly chargeable to a Parliamentary grant and shall be so reported to the House of Commons.

(4) The Comptroller and Auditor-General shall report to the House of Commons any important change in the extent or character of any examination made by him."

The term 'appropriation account' used above is defined in section 22 of the Act of 1866 and applies to 'account of the appropriation of the several supply grants comprised in the Appropriation Act of each year.' Such is the statutory provision for the preparation of reports on the appropriation accounts by the Comptroller and Auditor-General. In order to provide for the consideration of these

reports by the House of Commons, on whose behalf the task is undertaken, a standing order of the House provides as follows :—

"There shall be a Standing Committee to be designated 'the Committee of Public Accounts,' for the examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, to consist of 15 members, who shall be nominated at the commencement of every session, and of whom five shall be a quorum."

The Standing Committee referred to above deals with the reports of the Comptroller and Auditor-General and presents its own reports thereon to the House of Commons. A day is at times provided for the discussion by the House of the reports of the Public Accounts Committee. A Treasury Minute published later shows how, and to what extent, the Executive Government has given effect to the recommendations of the Committee. It will thus appear that the House of Commons which grants the money required for the public service satisfies itself that its votes have been duly appropriated to the objects for which the grants were made.

Appropriation Audit in India.

Since the inauguration of the Montagu-Chelmsford Reforms, a similar system, modified to suit Indian conditions, has been introduced in India and the first appropriation and audit reports on the accounts of the year 1921-22—the first year of the reforms—have only recently been considered by the various Public Accounts Committees.

The statutory position with regard to these reports in India is briefly as follows :—

Under Rule 51 of the Indian Legislative Rules (which relate to the Legislative Assembly) a Committee on Public Accounts is constituted each year 'for the purpose of dealing with the audit and appropriation accounts of the Governor-General in Council.' This Committee consists 'of not more than 12 Members including the Chairman, of whom not less than two-thirds shall be elected by the non-official members of the Legislative Assembly.' The remaining members are nominated by the Governor-General and the Finance Member is ex-officio Chairman* of the Committee. The Auditor General also attends the meetings of the Committee by invitation. Rule 52 defines the functions of the Committee and states that in scrutinising these accounts 'it shall be the duty of the Committee to satisfy itself that the money voted by the Assembly has been spent within the scope of the demand granted by the Assembly.' It is in this manner that the accountability of the Executive to the Legislature is enforced. This rule further provides as follows :— It shall be the duty of the Committee to bring to the notice of the Assembly—

*In this connection Sir Basil Blackett observed during a debate in the Legislative Assembly on the 23rd July 1923 as follows :—

"The position of the Finance Member as ex-officio chairman of the Public Accounts Committee is not going to be a very easy one. He will be passing, in his capacity as a Member of the Council of the Governor-General, criticisms on the Governor-General in Council, which will be rather difficult and I am not sure that as a permanent arrangement it will really work."

Similar remarks apply to the provincial Committees on Public Accounts.

In England, the Chairman of the Public Accounts Committee is generally a member of the Opposition.

(*i*) every re-appropriation from one grant to another grant;

(*ii*) every re-appropriation within a grant which is not made in accordance with such rules as may be prescribed by the Finance Department; and

(*iii*) all expenditure which the Finance Department has requested should be brought to the notice of the Assembly.

For the purpose of its enquiries, the Committee may examine representatives * of the departments concerned and if necessary summon the officers more directly responsible.

In the provinces there is a similar provision in the Legislative Council Rules for the constitution and functions of the Public Accounts Committee for dealing with the provincial audit and appropriation accounts. Further, Devolution Rule 37 (*i*) requires the Finance Department of the province to lay the audit and appropriation reports before the Committee on Public Accounts and to bring to the notice of the Committee all expenditure which has not been duly authorised and any financial irregularities. The reports on central heads of expenditure are dealt with by the Public Accounts Committee of the Central Legislature. The reports on provincial heads of expenditure are dealt with by the Public Accounts Committee of each provincial Legislative Council.

*Several representatives of the departments of the Central Government were actually examined by the Public Accounts Committee while going through the accounts of the year 1921-22.

For the implementing of the above statutory requirements, Rule 15 (*a*) of the Auditor-General's Rules places the responsibility on the Auditor-General of obtaining from each 'principal auditor' audit and appropriation reports 'reviewing the results of the audit conducted by and under such officers during the past official year.' Under the same rule, the Auditor-General has to 'transmit them to the Governor-General in Council or to the Finance Department of the local government concerned, with such comments as he may think fit.' The Finance Department then places these reports before the Public Accounts Committee. In fact so far as these reports are concerned the Auditor-General acts not as an officer of the Executive Government but of the Legislature.

In addition to transmitting them to the Finance Department, the Auditor-General has, under Rule 15 (*b*) of the Auditor-General's Rules, to forward these reports to the Secretary of State through the Governor-General in Council 'with his detailed comments on each report' and with 'such further comments of a general nature as he may think fit.' In these general comments, the Auditor-General is entitled to 'depict the general trend of audit development and the progress of financial control in India as a whole under the Reform Scheme.'

Prior to the Reforms, there used to be only one report from each province, known as the Appropriation and Audit Report, but with effect from

the accounts of the year 1920-21, this report has been divided into two sections, known as :—

(1) The Audit Report.

(2) The Appropriation Report.

The reason for the change was that under the old procedure great delay* ensued in the publication of the reports, owing to the necessity of including the final audited figures—for the purposes of the appropriation accounts—which are not ready till about 9 months after the expiry of the financial year. Owing to the delay in publication, effective action against financial irregularities brought to light in these reports was rendered very difficult, on account of the death or retirement of the officers at fault as well as to the reluctance of the executive authorities to take disciplinary action because of the length of time which had elapsed since the occurrence of the irregularity. Public interest also dies out when it is known that no effective remedy can, in the existing circumstances, be applied. Even in England the complaint of lack of interest in the reports of the Public Accounts Committee on the ground that, as a rule, they deal with ancient history is not uncommon. To minimise this defect it was decided to split up the financial irregularities into two parts :—

(*i*) those connected with appropriation;

(*ii*) other irregularities.

Irregularities falling under class (*ii*) are dealt

*Even now there is some complaint regarding the lateness of the date on which the appropriation accounts are presented to the legislature.

with in the audit report, which is issued about the month of September each year. Irregularities falling under class (*i*) have necessarily to wait until the appropriation accounts can be compiled. These are included in the appropriation report, which is generally issued by the month of February or March* following the year to which it relates.

Elaborate departmental rules and instructions have been issued for the preparation of these reports—to which great importance is attached—with which we are not concerned here. For our purposes it will be sufficient to state what these reports contain and of what interest they are or can be to the general public.

The financial irregularities dealt with in the audit reports usually fall under the following categories :—

(*i*) drawal of money in advance of requirements ;
(*ii*) rush of expenditure in March ;
(*iii*) postponement of inevitable payments ;
(*iv*) unusual expenditure ;
(*v*) losses or risk of loss occasioned by wrong interpretation or disregard of rules ;
(*vi*) double payments ;
(*vii*) embezzlement or manipulation of accounts with fraudulent intent.

Of these, (*i*), (*ii*) and (*iii*) are common to all departments of the administration and are inseparably connected with the fundamental principle under-

* During a debate in the Legislative Assembly on the 23rd July 1923 the Finance Member expressed the hope that it might in future be possible to produce the appropriation accounts about the 1st January.

lying the budget, *viz.*, that unexpended balances of grants on the 1st April lapse to the treasury. Various measures of a stringent character have from time to time been adopted to prevent their recurrence, but such irregularities are more or less chronic to the system. Irregularities under the other categories are bound to occur under any system, human nature being what it is.

In addition, the following classes of irregularities are peculiar to public works expenditure :—

(*i*) Want of estimate ;

(*ii*) Excess over estimate.

The appropriation report* deals with the appropriation accounts and financial irregularities connected with appropriation of grants. The object of the appropriation accounts being to enable the Public Accounts Committee to satisfy itself that expenditure has been incurred within the scope of the demand granted by the legislature, elaborate tables are inserted showing the grants voted by the Legislature, with details under minor heads, the revisions of grants and re-appropriations sanctioned during the year, and the expenditure recorded against each minor head. There are separate sets of statements for 'voted' and 'non-voted' subjects, so as to enable the Legislature and the Executive Government respectively to consider the portions with which each of them is directly concerned. In the case of provincial subjects, reserved and transfer-

* This report is prepared on the lines of reports of the Comptroller and Auditor-General in Great Britain.

red heads are detailed separately. An explanation is given of all differences between the net budget grants as sanctioned by the Legislature, the local Government, or the Government of India, and the actual expenditure and the causes thereof. Any excesses of actual expenditure over net grants are explained and traced into units of appropriation. In the case of important excesses over net budget grants it is stated why they were not foreseen in time, and a formal supplementary grant or reappropriation made to cover the excess, and whether the excess indicates a lack of control over expenditure on the part of the authority administering the grant. If in sanctioning the demand for a grant, the Legislature has specifically restricted the demand under a detailed head, but the grant for such detailed head has been exceeded, the fact is clearly brought out.

The appropriation report also contains a review (free from political bias) of the financial position of the local government. In this connection, the following instructions have been issued by the Auditor-General :—

"To elucidate the present position, the cash situation will of course have to be explained, but in addition, the growth or diminution of liability should be indicated. For this purpose, both revenue and expenditure should be suitably analysed and permanent commitments distinguished from those of a temporary character, the former being detailed to the extent necessary and the latter sub-divided as may be suitable. Contingent liabilities, such as estimated expenditure on uncompleted schemes or works, should receive special attention, as well as assets not yet

brought to account. The accounts of the Famine Insurance Fund and the borrowings of the Local Government should also be reviewed."

(Para. 10 of Auditor-General's Circular, dated 15th May 1922.)

All changes of classification in accounts made during the year* are mentioned briefly, with reasons for the change in each case. All important transfers of subjects from 'Central' to 'Provincial,' from 'Reserved' to 'Transferred' or from 'non-voted' to 'voted' and *vice versa* are also enumerated in this portion of the report.

The appropriation report also deals with objections in respect of that portion of appropriation audit which is conducted on behalf of the executive government only, and with which the Legislature is not concerned, *e.g.*, the objections for want of or excess over the appropriation for a particular object of expenditure, which, under the financial rules of the Local Government, requires a specific appropriation. This portion is published separately as an appendix to the report and is submitted to the Government concerned and not to the Legislature.

Both the Audit and the Appropriation reports are submitted by the Accountants-General—provincial and departmental†—to the Auditor-General,

* The Central Public Accounts Committee, in their report on the appropriation accounts of the year 1921-22, recommended that changes of classification in accounts should not be made except at the beginning of a financial year, as they are apt to lead to excesses over grants. This recommendation has been accepted.

† In the term departmental Accountants-General above are included the Accountant-General, Railways, and the Accountant-General, Posts and Telegraphs.

who forwards them with an expression of his own views to the Finance Department (of the Government concerned) for being placed before the Public Accounts Committee of the Legislature. The Committee considers these reports in the discharge of its statutory functions, already indicated in the preceding paragraphs, and makes recommendations to the Legislature. The report of the Public Accounts Committee is then considered by the Legislature and orders or recommendations issued thereon for the consideration of the Executive Government. It is the duty of the Finance Department to see that due effect is given to any such recommendations or orders in regard to voted items and to forward to the Audit Officer concerned and to the Auditor-General the report of the Public Accounts Committee and the orders of the Legislature thereon (including sanction to excesses over grants) and any orders that may be passed by Government as the executive authority giving effect to the views of the Legislature. The orders passed by Government in regard to non-voted items (including sanctions to excesses over grants) are also communicated by the Finance Department to the Audit Officer concerned as well as to the Auditor-General. It is open to the Audit Officer to invite attention in the next report to the inadequacy of the orders passed on any item in the previous report and to bring the matter again before the Public Accounts Committee and the Legislature, if he thinks it his duty to do so.

It will thus appear that machinery has been provided for the purpose of enforcing accountability. Whether such machinery will serve its purpose or not, will depend upon the Public Accounts Committee, the Legislature and the men composing these bodies as also upon the interest that the general public and the press take in orderly finance. As Mill has said :—

> "Publicity is no impediment to evil nor stimulus to good if the public will not look at what is done."

Audit Reports on the Accounts of the Secretary of State in Council and the High Commissioner.

The remarks made in the preceding paragraphs apply to expenditure incurred in India. With regard to expenditure out of Indian revenues incurred in the United Kingdom the position is different. Such expenditure does not come within the cognisance of the Auditor-General and separate provision has been made for its audit by an independent Auditor, as will be explained in the chapter on Audit of Accounts. Under section 27 of the Government of India Act it is obligatory on the Auditor of the Accounts of the Secretary of State in Council to lay all his reports on those accounts before both Houses of Parliament with the accounts of the year to which they relate. Under clause 9 of the Order in Council of 13th August 1920 appointing a High Commissioner for India, that officer lays before the Auditor of the Accounts of the Secretary of State

in Council his accounts with vouchers, etc., and transmits to India a copy of any report made by the Auditor on such accounts. These reports are reviewed, in accordance with the procedure already outlined, by the Public Accounts Committees—central or provincial, as the case may be—in India, together with the reports of the Audit Officers in India.

The reports on the accounts of the Secretary of State in Council, however, which relate to much larger expenditure are only sent out to India for the information of the Governments and the legislatures concerned. Only a departmental minute on these reports is prepared in the India Office and submitted to the Secretary of State in Council. In July 1922 the Government of India in a despatch asked that copies of these reports should be supplied for presentation to the Public Accounts Committees of the central and provincial legislatures, but were informed that under the Government of India Act such reports were prepared for submission to the Secretary of State in Council to be laid before Parliament. The position, therefore, is that the reports on the accounts of the Secretary of State in Council come under independent review neither in England nor in India.

CHAPTER 6.

Irrigation Finance.

Among the many benefits which British rule has conferred on the people of India the construction of irrigation works will occupy a proud place. Even more than railways, canals have changed the economic life of various parts of the country to a remarkable degree and brought prosperity and population to tracts which were either desolate or subject to periodic ravages of scarcity and drought. And above all, with few exceptions, they are a source of considerable profit to the Government. The extent of the importance of irrigation may be judged from the following extract taken from the official publication, "India in 1921-22":—

"During the year 1920-21 the total area irrigated by all classes of works in India excluding the Indian States, amounted to just over 27 million acres, which is 13·7 per cent. of the entire cropped area of 197½ million acres. . . . . . The total length of main and branch canals and distributaries from which this irrigation was effected amounted to 66,754 miles. The estimated value of the crops irrigated by Government works amounted to £ 154·4 millions* or double the total capital expenditure on the works. . . . Towards the total area irrigated, the productive works contributed 18¼ million acres, the protective works 798,000 acres and the minor works nearly 8 million acres

* Throughout this extract the pound sterling has been taken as the equivalent of ten rupees.

. . . . The total capital outlay to the end of the year 1920-21 on productive irrigation works, including works under construction, amounted to £ 58·9 millions, the gross revenue to £ 8·1 millions and the working expenses to £ 2·8 millions. The net return on capital outlay was therefore 9 per cent. The total capital outlay on protective works amounted to £ 11·7 millions, but of this a large proportion has been incurred on works under construction, which have not yet commenced to earn revenue."

Irrigation under the Reforms.

Prior to the Reforms, the major portion of the capital outlay on the construction of irrigation works, whether out of loan funds or out of revenue, was a charge on the Central Government, which was also responsible for the financing of such schemes. The provincial governments had no power to sanction the construction of any such work. The revenue receipts and revenue expenditure (including interest on capital outlay) were, however, generally divided in equal shares between the Central and the provincial governments. Since the introduction of the Reforms irrigation is a provincial reserved subject. Provincial governments are now responsible for the capital outlay and maintenance and interest charges on account of irrigation works within their territorial jurisdiction. The revenue derived from them is now entirely provincial revenue. The Central Government is responsible for only those works which lie in territories directly administered by that Government, such as Delhi, Baluchistan, Coorg, Ajmer

Merwara, etc. The natural consequence of the change introduced by the Reforms has been that the provinces have had transferred to them the capital outlay up to date incurred by the Government of India on the construction of irrigation works handed over to provincial management. Such outlay is treated as a loan from the Central Government to the province concerned, on which the latter has to pay interest to the Central Government. This interest is calculated under Devolution Rule 24* at the following rates:—

(*a*) in the case of outlay up to the end of the financial year 1916-17, at the rate of 3·3252 per cent.

(*b*) in the case of outlay incurred after the financial year 1916-17, at the average rate of interest paid by the Governor-General in Council on loans raised in the open market since the end of that year.

As regards capital outlay on irrigation works subsequent to the introduction of the Reforms funds have to be found on the security of provincial revenues. The local government has the option of one or other of the following ways:—

(*i*) Raising a loan in the open market under the Local Government Borrowing Rules.

(*ii*) Taking an advance from the Government of India, under Devolution Rules 24 and 25.

(*iii*) Utilising amounts from the famine insurance fund of the province.

(*iv*) Utilising the accumulated provincial cash balance kept with the Government of India.

* The Government of India, it is understood, intend to ask the Secretary of State to modify this rule.

(*v*) Utilising the revenue surplus of the year, if any.

Latterly, another method has begun to be adopted, owing to the difficulty of finding the necessary funds in other ways and also to reduce the amount to be raised, *viz.*, by sale of land in advance of construction or before irrigation begins.

IRRIGATION REVENUE AND EXPENDITURE.

For purposes of accounts and finance, irrigation works are divided into two classes: (*i*) productive and (*ii*) unproductive. So far as productive works are concerned, they are treated on commercial lines and proper capital and revenue accounts are kept for the purpose of determining the net return from each such work. Great care is taken before a project is classed as productive. In submitting such a project for the sanction of competent authority the Public Works Department has to show that it satisfies the following condition, *viz.*:—

"There must be good reason to believe that the revenue derived from it will, within 10 years after the probable date of its completion, repay the annual interest on the capital invested, calculated at 6* per cent., but in preparing a project for sanction no deduction is to be made from the total capital outlay on account of anticipated excess of revenue over simple interest."

The term 'capital invested' includes (*i*) direct charges, (*ii*) indirect charges, and (*iii*) all arrears of simple interest, if any, *viz.*, balance of total interest

* This rate depends upon the rate payable by Government on loans raised in the open market and is thus liable to vary from time to time. Interest is charged in the irrigation section of the accounts on capital outlay on works, irrespective of the fact that funds for construction were provided out of revenue or loans.

over total net revenue. These somewhat technical terms are explained below.

For account purposes irrigation receipts and charges are divided into two parts :—

(*a*) Capital;

(*b*) Revenue.

For capital receipts there is no head in the accounts. All receipts on capital account are taken by deduction from capital outlay, and thus the capital account is entirely an account of charges alone.

The revenue receipts are divided into two classes :—

(1) Direct receipts and (2) Indirect receipts.

Direct receipts are those arising from (*a*) water rates, or sale proceeds of water for irrigation purposes; (*b*) Owners' rates, or rates imposed on owners of land in respect of the benefit which they derive from irrigation ; (*c*) sales of water for purposes other than irrigation, *viz.*, water supplied to towns and other localities for domestic consumption ; (*d*) sale proceeds of canal plantations and other produce ; (*e*) fines for wastage of water and infringement of canal rules; etc.

The main item of revenue under direct receipts is the water rate, which is levied by the local government under rules framed in exercise of the authority conferred by Canal Acts. The mode of levying the water rate as well as the rules regulating its collection vary considerably from province to province. The presidencies of Bombay and Madras have their own local Canal Acts, but for Northern

India there is the Northern India Canals and Drainage Act of 1873 on which the canal administration in the provinces in that part of the country is based.

In addition to the water rate which is collected by the Land Revenue Department for the Irrigation Department there is the enhanced assessment of land revenue to be paid to the Land Revenue Department under the provincial Land Revenue Codes on canal irrigated lands. As this increase of land revenue is due solely to irrigation it is credited to the Irrigation Department. This item is classed as an indirect receipt and forms a substantial part of the whole irrigation revenue.

The main principles* observed in the allocation of expenditure between capital and revenue are as follows :—

(*a*) Capital bears all charges for the first construction and equipment of a project, as well as charges for maintenance on sections not opened for working and charges for such subsequent additions and improvements as may be sanctioned under rules by competent authority.

(*b*) Revenue bears all charges for maintenance and working expenses, which embrace all expenditure for the working and upkeep of the project, as also for replacements and for minor additions or improvements, as it may be considered desirable to charge to revenue instead of increasing the capital cost of the undertaking.

*For further details see Appendix No. 4, Statement A. Public Works Account Code. 1922.

Capital outlay is sub-divided into two sections:—

(1) charged to revenue,

(2) not charged to revenue ;

The meaning of these expressions will be given below in the Government of India's own words :—

" . . . . When the budget is prepared, the local Government estimate, on the one side, the revenue likely to be realised during the year, and on the other side, the expenditure which they propose to incur from this revenue. The account of this revenue and expenditure is known as the revenue account and such expenditure is commonly described as 'charged to revenue' which is synonymous with saying 'charged within the revenue account'. Expenditure 'not charged to revenue' is similarly synonymous with expenditure 'charged outside the revenue account'. Resources outside the revenue account take the form of loans, accumulated balances of previous years, the revenue surplus of the year in question after all expenditure chargeable to revenue has been met, and certain other sources of income not classed as revenue."

(Para. 8, Government of India, P.W.D. Circular No. 3-P.W., dated the 24th September 1921.)

Capital outlay on productive works is usually met out of loan funds and is therefore not charged to revenue. Capital outlay on unproductive works is charged to revenue, or met out of loan funds if adequate provision for a sinking fund is made.

Irrigation expenditure, like other public works expenditure, is generally classified in the accounts as follows :—

(1) Works.

(2) Establishment.

(3) Tools and Plant.

Under the head (1) are recorded all charges for labour and materials incurred in the construction of the work. Under the head (2) are recorded all charges for establishment maintained for the construction of the work, which is not charged as labour, such as the pay of the superior engineering and clerical staff. Under the head (3) come all charges for tools and plant required for the work, which are not charged direct as materials purchased*.

Expenditure recorded under the heads (1), (2) and (3) above is known as 'direct charges'. In addition to these there are other charges incurred in the construction of an irrigation work. When land is acquired from the Land Revenue Department, the latter loses the revenue it was getting from the land, so such loss must be debited to the work in question. The charge is capitalised at 25 times the actual amount of the land revenue remitted and is treated as an 'indirect charge' to the capital account of the work, though, of course, this is not a cash transaction and no such amount is actually paid by the Irrigation Department to the Land Revenue Department. This is not the only charge. Under the existing account rules leave and

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* The description in this paragraph applies only to big irrigation projects, like the Sutlej Valley Project or the Lloyd Barrage and Canals Construction, for which whole time special staff is needed. Where, however, the same establishment is engaged on one or more irrigation works it becomes necessary to apportion the establishment and tools and plant charges—labour charges being charged direct to each work—over individual works. In such a case distribution is generally made at the following rates:—

$\left.\begin{array}{l}\text{For establishment—}21\tfrac{1}{2}\text{ per cent.}\\ \text{For tools and plant.—}1\tfrac{1}{2}\text{ per cent.}\end{array}\right\}$ per 100 rupees of outlay on works.

pension allowances of officers on the permanent pensionable establishment are charged to the appropriate heads of account and not to individual works on which they are or may have been at one time engaged. But obviously such a procedure would obscure the true financial results of individual works and therefore leave and pensionary charges are calculated at 14 per cent*. of the gross outlay chargeable to the project as establishment charges and are included as an 'indirect charge' against the project. In addition a charge of 1 per cent. on works expenditure is included on account of audit and accounts establishment. None of these are cash transactions and therefore find no place in the general accounts, which are accounts purely of cash receipts and cash charges. They are used merely for the purpose of sanctioning projects or for *pro forma* accounts—known as the administrative accounts—kept by individual projects, to ascertain the results of the financial working of each project.

The third item under indirect charges, *viz.*, arrears of simple interest†, will be easily understood. One point in this connection will, however, at once strike the trained businessman, *viz.*, that only *simple* interest on the outlay is calculated. Actually Government has to bear compound interest and the difference between the two is paid out of general revenues and not debited to the capital

* The revision of this rate—which is admitted to be inadequate—is under consideration.

† From the date of commencement of construction to the date the work begins to show a net profit.

account of the project. This, at first sight, seems unduly favourable to the project in question and contrary to the principle that the account should be maintained on a commercial basis. But as no credit is afforded to capital outlay for, and general revenues derive the benefit from, the net profits arising from the project after the initial period is over, it is perhaps not unfair that general revenues should also have to meet a small portion of the charges for interest during the first few years of construction.

THE FINANCIAL FORECAST.

Before the construction of an important irrigation project is authorised careful preliminary investigations are conducted and the financial aspects of the project are subjected to a thorough scrutiny. An officer is appointed to conduct the survey operations and he is required to report on the usefulness and financial character of the project. On receipt of this officer's report Government are in a position to judge whether the idea should be proceeded with or dropped. If the work is expected to be financially remunerative there is usually no hesitation in taking the next step, *viz.*, the preparation of detailed plans and estimates. Accompanying these is a full report regarding the general features of the project, as well as a forecast of the financial prospects. This report is prepared in consultation with the local revenue officers, whose opinion is required to be given as to the desirability or necessity of the projected work, the fairness of the water rates

proposed, and the probability of the anticipated financial results being realised. The financial forecast is prepared in four parts:—

I. Summary of the estimated direct charges to Capital Account during the first ten years of construction. Receipts on Capital Account are deducted in this return and only the net total is shown.

II. Summary of the estimated indirect charges to Capital Account during the first ten years of construction.

III. Estimate of the growth of irrigation and revenue receipts and charges commencing from the fourth to the twentieth year of construction.

In this return the area to be irrigated at the end of each year is shown. The direct and indirect revenue receipts expected during each year are then entered. In a separate column in the return are entered the estimated direct and indirect charges against the revenue account for each year, *viz.*, the charges to be incurred on maintenance and repairs.

IV. Estimate of the net financial results ten years after the probable date of completion of the work. In this return which is prepared for 20 years,* *viz.*, from 1st to the 20th year of construction, columns are provided for the following:—

(*a*) Direct capital outlay during the year.

(*b*) Direct capital outlay to end of year.

*It is presumed that the work will begin to pay in the 10th year of construction.

(c) Simple* interest on capital outlay to end of previous year plus half outlay during year.

(d) Net revenue, including direct and indirect receipts, as per return III.

(e) Simple interest less net revenue.

(f) Net revenue less simple interest.

It will be obvious that for some years in the beginning there will be a plus figure under (e) and a minus figure under (f). From the year a plus figure under (f) begins continuously to appear the work would appear to be directly remunerative.

The detailed plans and estimates together with the financial forecast are sent to Government through the Audit Officer who checks the account classification and the accuracy of the calculations on which the forecast is based. But the Audit Officer has nothing to do with the figures of estimated revenue and expenditure, for which the responsibility rests with the administrative officers. The Audit Officer then sends on the papers to the Local Government with his remarks.

Scrutiny of Projects from the Financial Point of View.

A part of the financial scrutiny consists in seeing that the water and owners' rates as well as the prices estimated for the sale of proprietary rights are likely to be realised and that the plans and designs submitted for approval will need no modification, alteration or

* The rate of interest varies according to the rate on which Government borrows money in the open market.

addition later on, which will prejudicially affect the financial aspect of the scheme. The greatest importance is attached to the accurate estimating of the area commanded and to be irrigated by the project, for on the correctness of these figures the productive character of the scheme must largely depend. Overestimating in these respects is ruthlessly checked. The estimate of working expenses is also scrutinised carefully with a view to seeing that such expenses are not inadequate and that what appears on the basis of certain figures as a productive scheme would not after a few years become unproductive due to increased cost of maintenance and repairs. Finally, the cost of construction is of equal importance and if by some modification of design or otherwise it is possible to reduce it, without impairing the usefulness of the project, every attempt is made to explore all such avenues.

Unproductive Works.

Government also undertakes certain irrigation works not with the prospect of getting adequate net return therefrom, but with the object of preventing immediate distress among the people or for guarding against probable future expenditure in relief of the population. Such works are classed as unproductive works and are also usually described as protective works. Expenditure on such works may be met either from loans or from revenue. The provision from the latter source generally comes out of the

famine insurance fund of the province, which is built up out of revenue. When Government finances unproductive works out of loan funds, a sinking fund has to be maintained for the amortisation of the loan. The provision for a sinking fund, however, does not appear in the irrigation section of the accounts, but under the section relating to debt services. The reason for this change of procedure is given by the Government of India as follows :—

" . . . . At first sight it might appear, that where a loan is raised in connection with, for example, an unproductive irrigation work, the sinking fund contribution is as integral a portion of the irrigation expenditure of the year as is the repayment of the interest on the loans, and that consequently it should find a place in the irrigation section of the accounts. Any such procedure would, however, lead to anomalies. The sinking fund contributions would have to be taken in reduction of the capital value of the work, and the main object of the accounts, which is to show the value of the works as an asset to Government, would be nullified, since this value does not vary according as to whether or not a sinking fund has been established. It would obviously be incorrect to show the productivity of a work as increasing year by year not because its revenue earnings were increasing but because the indebtedness incurred in its construction was gradually being reduced. It has, therefore, been decided to deal with such sinking funds in the general debt heads of the province and not in the irrigation section of the accounts."

(Para. 24 of Government of India, P.W.D. Circular No. 3-P.W., dated the 24th September 1921).

Powers of Financial Sanction of Local Governments.

The powers of sanction of Provincial Govern-

ments with regard to capital expenditure upon irrigation works are as follows :—

They can sanction original estimates up to Rs. 50 lakhs, so long as the project concerned does not materially affect the interests of another Provincial Government. With regard to revised estimates they can sanction excesses up to 15 per cent. over an original estimate sanctioned by the Secretary of State in Council. Beyond these limits the sanction of the Secretary of State in Council is required under the rules.

CHAPTER 7.

RAILWAY FINANCE.

Various classes of railways.—Railways in India may be divided into five classes :—

(1) State lines worked by the State, such as the North-Western Railway, the Oudh Rohilkhand Railway, the Eastern Bengal Railway, etc.

(2) State lines worked by

(*i*) Guaranteed Companies, such as the Bombay, Baroda and Central India Railway, the Great Indian Peninsula Railway,* the East Indian Railway, etc.

(*ii*) Independent Companies, such as Jodhpur-Hyderabad (British Section) Railway, Tirhoot State Railway, etc.

(3) Company lines worked by companies, such as the Darjeeling Himalayan Railway, the Bengal and North-Western Railway, the Barsi Light Railway, etc.

(4) Lines belonging to Indian States, such as the Jodhpur Bikaner Railway, the Gwalior Light Railway, the Nizam's State Railway, etc.

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* In accordance with the Resolution passed by the Legislative Assembly on the 27th February 1923 both the Great Indian Peninsula and the East Indian Railways will, on the expiry of their leases on 30th June 1925 and 21st December 1924 respectively, be taken over for management by the State.

(5) Miscellaneous, such as lines belonging to District Boards, etc.

Total mileage.—The total mileage on account of all the five classes mentioned above was 37,266 on the 31st March 1923. The total mileage in January 1923 of classes (1) and (2), *viz.*, of State Railways, amounted to 27,293. Out of this total mileage of State Railways 7,605 constitute the mileage managed direct by the State, the rest being under the management of companies.

Lines included in Government estimates and accounts.—Government is financially interested chiefly in the lines belonging to classes (1) and (2), for which it has to find funds both for capital as well as revenue expenditure. The gross receipts and gross expenditure on account of these lines are incorporated in the Government estimates and accounts.

Government has no financial interest in or responsibility for the lines constructed by Indian States within their own territories, *viz.*, lines in class (4). No figures of revenue or expenditure on account of such lines are included in the Government estimates and accounts.

In the case of every one of the remaining lines, *viz.*, lines in classes (3) and (5), Government holds the right of purchase at certain dates. Most of these lines have received financial assistance from the Government and in practically every case they have been provided with land free of cost. The

exact terms of the financial assistance in the case of each line could only be gathered from its contract with the Government; but a brief summary of each contract is readily available in 'The History of Indian Railways' issued by the Railway Board. No entries regarding the receipts or working expenses or capital outlay on these lines are brought on the Government estimates and accounts. Only such receipts and payments on account of these lines are shown in the Government estimates and accounts as either accrue to or fall on Government under the terms of its contract with the line in question. As an instance of receipts on account of such lines may be mentioned the Government share of surplus profits earned by the line, if Government has reserved that right to itself under the contract as a *quid pro quo* for the financial assistance it has rendered to the line. As an instance of payment may be cited payments made for land acquired by Government for the line for purposes of construction and maintenance.

In this chapter we are concerned only with lines falling under classes (1) and (2), which are known as 'State Railways'. The receipts and payments included in the Government accounts and estimates on account of the remaining classes of lines, *viz.*, lines in classes (3) and (5), are generally small and are classified under the head 'subsidised companies' as practically each and everyone of these lines has received a subsidy from Government in some

shape or other, as has been briefly mentioned above.

Financial results of State Railways.—The total capital* expended on State-owned railways in India up to the 31st March 1922, including the liability incurred on the purchase of lines, amounted to Rs. 645 crores†. This figure is exclusive of the cost of land given free to the railways as no particulars are available of this expenditure. The total capital at charge was Rs. 606 crores on the 31st March 1922. The difference between the figures for 'the total capital expended' and 'the total capital at charge' is due to the redemption of a certain portion of the capital outlay by means of annuities, sinking funds, etc. The gross receipts from State-owned railways during the year 1921-22‡ amounted to Rs. 81·69 crores. The payments on account of working expenses during the course of the year amounted to Rs. 65·67 crores. The net receipts were therefore Rs. 16 crores, representing a return of 2·75 per cent. on the total capital. Against this return various charges, such as for interest, annuities, sinking funds, etc., have to be taken into account in order that the actual financial position from the point of view of the State may be gathered.

* Figures taken from para. 2 of Inchcape Committee's Report on Railway expenditure.

† In this figure is included a sum of Rs. 24 crores for capital outlay on strategic railways with a total mileage of 1774, which even in favourable times hardly earn in the aggregate sufficient to cover working expenses, much less pay for the interest on capital. A separate account is now kept of such lines.

‡ Figures taken from para. 6, Indian Railway Administration Report, 1921-22.

Taking these into consideration the position is as below :—

	Rs.
Traffic receipts from Government Railways	81,69,27,380
Government share of surplus profits from subsidised Companies' Railways ..	24,73,577
Total receipts ..	81,94,00,957

	Rs.
Working expenses ..	65,66,78,003
Surplus profits paid to Companies	1,06,40,122
Interest on Government debt	15,65,46,753
Interest on capital contributed by Companies.	3,35,17,353
Annuities in purchase of Railways	5,07,83,728
Sinking Funds	43,35,430
Land and subsidy to Companies	7,19,922
Miscellaneous	—10,89,853

Total charges ..	91,21,31,458
Net loss ..	9,27,30,501

or, in other words, there was a net loss of a little over Rs. 9¼ crores during the year 1921-22.

Commenting on the above figures, the Railway Administration Report adds :—" For the first time since 1900 the Railways have fallen from the status

of an important source of revenue to the country and are responsible for an addition of a very heavy amount to the annual liability of Government".

For the year 1922-23, the figures furnished to the Inchcape Retrenchment Committee indicate the following as the probable position :—

	1922-23 Revised estimate. Rs.
Gross traffic receipts	92,07,26,000
Subsidised Companies—Government share of surplus profits, etc. ..	25,97,000
Total receipts ..	92,33,23,000
Working expenses	66,83,85,000
Surplus profits paid to Companies ..	68,07,000
Interest on debt	17,03,62,000
Annuities in purchase of Railways ..	5,03,63,000
Sinking Funds	46,11,000
Interest on capital contributed by Companies	3,32,04,000
Subsidised Companies	10,80,000
Miscellaneous Railway expenditure ..	34,50,000
Total expenditure :	93,82,62,000
Net receipts :	—1,49,39,000

Or, in other words, a net loss of about Rs. 1½ crores is expected during the year 1922-23. The Inchcape

Committee made the following recommendation on the point:—" We are of opinion that the country cannot afford to subsidise the railways and that steps should be taken to curtail working expenses as necessary in order to ensure that not only will the railways as a whole be on a self-supporting basis, but that an adequate return should be obtained for the large capital expenditure which has been incurred by the State. We consider that, with economic working, it should be possible for the railways in India to earn sufficient net receipts to yield an average return of at least 5½ per cent. on the total capital at charge. The average return to the State during the 3 years prior to the War was 5 per cent. and, in view of the fact that large amounts of additional capital are being raised at 6 per cent. or over, we think a return of 5½ per cent. cannot be regarded as excessive ".

Importance of railways to the general budget.— The importance of railways to the general budget will also appear from the following figures of revenue receipts and expenditure (chargeable to revenue). For the year 1923-24 the total estimated revenue of the Central Government, excluding Railways, is a little over Rs. 103 crores. The estimate of expenditure for the same year, excluding Railways, is about Rs. 106¼ crores. The gross receipts and gross expenditure (chargeable to revenue) of railways for the same year are estimated at about Rs. 97 crores and Rs. 91 crores respec-

tively. Or, in other words, the gross receipts from railways alone are about equal to that from all the rest of the revenue heads put together, and the gross railway expenditure (chargeable to revenue) is about 86 per cent. of the whole of the remaining expenditure of the Central Government.

Administration of railways.*—The State railways in India, whether managed by the State or by companies, are, under the control of the Railway Board† which, for the present, consists of a Chief Commissioner for railways and two members. The responsibility under the Government of India for arriving at decisions on technical questions is vested in the Chief Commissioner, who is empowered to override the Board and is solely responsible for advising the Government of India on matters of railway policy. The Railway Board is treated as the Railway Department of the Government of India, but as there is no separate railway portfolio in the Executive Council, it is attached, for purposes of the daily conduct of business in the Government of India, to the Department of Commerce.

Associated with the Chief Commissioner there is a Financial Commissioner who is a representative of the Finance Department in the Railway Commission and is appointed in order to obtain the strictest

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* Under the Reform Scheme railways are a Central subject, with the exception of some light and feeder railways, and extra municipal tramways, *vide* item 6 (*d*) of Part II, Schedule I to Devolution Rules.

† It is understood that the re-organisation of the Railway Board is under consideration.

possible economy in the spending of the large sums of money placed at the disposal of the Railway Department and also to ensure that on all questions of large railway policy the Chief Commissioner has the best expert financial advice available within the Commission. The Financial Commissioner has power, within certain limits, to sanction expenditure on behalf of the Finance Department. He co-ordinates railway finance with general finance and acts generally as the watch-dog of the Finance Department. He has also the power to refer, if he so desires, to the Finance Member any question which involves financial issues of any importance.

Attached to the Railway Board there is also the Accountant-General, Railways, who is an officer of the Indian Audit and Accounts Service and is directly subordinate to the Auditor-General and not to the Railway Board.* He is the chief railway audit officer and is responsible to the Auditor-General for seeing that the Railway Board and the Government of India do not exceed their financial powers in respect of railway expenditure. He is also the chief railway accounts officer and is responsible for the proper compilation of the railway estimates and accounts, as well as for the preparation of the Railway Sections of the Finance and Revenue accounts of the Government of India.

* It is understood that Government have under their consideration proposals tending to bring railway accounts more directly under the control of the railway administration.

Lower down, there is a difference in the system of management, according as the railway is managed by the State or by a company. In the case of the former, there is an Agent for each railway who is directly subordinate to the Railway Board. The Agent is the head of the railway and exercises various powers, administrative and financial, under delegation from the Government of India or the Railway Board. Attached to each open line of State Railway there is a Chief Auditor, who is also an officer of the Indian Audit and Accounts Service and is responsible for account, audit, and financial matters pertaining to the line. He is both an independent auditor and financial assistant to the Agent. It is the duty of the Chief Auditor to audit all receipts and expenditure of the railway, to supervise the keeping of accounts of the railway according to the prescribed forms, and to maintain regularity in the financial operations of the line. He is also empowered to make proposals for economy or improvement, affecting other departments of the railway than his own. In respect to establishments, the Auditor is required to review this item of outlay as the requirements of work vary and to help the Agent in keeping the expenditure on establishment as low as possible with due regard to efficiency.

Administration of State lines managed by companies.—As regards State lines managed by companies, the powers of control exercised by Government are specified in the contracts between the

Secretary of State and the Companies. All these companies are with an English domicile and have what are called their 'Home Boards' to which financial and administrative proposals have to be referred by their respective Agents in India before they are submitted to the Railway Board for sanction. No direct administrative control is exercised by the Railway Board over the Companies' Agents or their railway staff, who are the servants of the companies and not of Government, and whose recruitment, promotion and dismissal is entirely the concern of the companies.

" The broad features of the contracts entered into with such companies are :—

(1) That the Company shall have a small amount of share capital in the concern, on which interest at rates varying from 2 to $3\frac{1}{2}$ per cent. is guaranteed by the Secretary of State out of the revenues of India.

(2) That the Company shall receive a share of the surplus profits earned by the Railway after meeting all payments for interest on the Capital at charge, such share being based either on some fixed proportion or on the amount of Capital contributed by Government and the Company, respectively.

(3) That all sterling transactions shall be taken to account in rupees at the monthly average rate of exchange. In the case of the East Indian Railway Company, the rate is fixed in the contract at 1s. 8d. to the rupee.

(4) That the Company shall keep the undertaking, its rolling stock, etc., in thorough repair, and in good working condition, to the satisfaction of the Secretary of State.

(5) That on the determination of the contract Government will repay to the working Company the amount of its share capital at par.

These conditions govern the nature of the control to be exercised by Government over the operations of such companies. The Government, in addition to their interest in the correct division of profits, are concerned to see that the property, of which they are the owners, is kept in good condition and repair, and that all fresh capital put into the line is profitably and economically spent. The companies, on the other hand, are concerned merely in making the most of the railway as a dividend earning investment during the limited period of their tenure.

A close check and supervision is accordingly required on behalf of Government in the following directions :—

(1) To ensure the proper upkeep and maintenance of the railway, so that, on determination of the contract, it may be handed back in as good condition as when it was made over to the Company.

(2) To examine all proposals for fresh expenditure of capital and check any tendency to extravagance in that direction.

(3) To watch the proper application of funds to Capital purposes for improvements, and to Revenue purposes for upkeep and maintenance.

(4) To verify the correctness of accounts and of the division of profits.

The first of these checks is exercised through the Government Inspector, whose duty it is to carry out a periodical inspection of the permanent way, works, rolling stock, etc., and to certify at the close of each half year that the undertaking has been kept in thorough repair, and in good working condition. Such an inspection is primarily required in the interests of public safety under the Railway Act, but the certificate then given also serves the purpose of the clauses in the contracts relative to the maintenance and upkeep of the undertaking.

The second check is exercised through the examination of estimates which, in the case of all but the smaller works not exceeding Rs. 1,00,000 in cost, are required to be submitted for the sanction of Government.

The third and fourth checks are exercised primarily by the Government Examiners of Accounts attached to the offices of the various railways worked by Companies." (Paras. 272 to 275, pages 160, 161 and 162 of Introduction to Indian Government Audit).

Railway Revenue.

The revenue from railways arises chiefly from goods and passenger traffic. There are also some

miscellaneous receipts derived from telegraphs, steam boat, ferries, etc., which, however, form only about 4 per cent. of the total earnings. Below is a classified table* of gross earnings for the year 1921-22 :—

—	Earnings.	Per cent. of total earnings.
	Rs.	
Goods traffic	44,58,67,000	54·41
Coaching..	34,68,07,000	42·33
Miscellaneous, telegraph, steam-boat, etc.	2,67,27,000	3·26
Total	81,94,01,000	100·00

The receipts from goods traffic mostly arise from the transport of general merchandise, such as food-grains, cotton, metals, oil-seeds, jute, sugar, salt, etc., and are obviously dependent upon trade conditions in any year. After general merchandise as a source of railway income comes coal and then other goods. Passenger traffic is the less profitable and commercially the less important side of railway work compared with the business of carrying merchandise and coal.

Such are the receipts accruing to Government from State Railways. In addition, Government receives small amounts from subsidised companies.

* The figures are taken from the Railway Administration Report for the year 1921-22. The figure under earnings includes a sum of Rs. 24,73,577 on account of surplus profits from subsidised lines.

Such receipts are credited in the accounts under the head XII—Subsidised Companies—Government share of surplus profits. These surplus profits are received from the Rohilkhand and Kumaon, Southern Punjab, Amritsar Patti, Hardwar Dehra, Sialkot-Narowal and Hoshiarpore Doab Railways under the terms of their respective contracts. Dividends on certain shares of the Ahmedabad-Dholka Railway allotted to Government are also credited under this head.

There is another class of receipts on account of these companies, which is really not revenue proper, but merely a recoupment of payments made in a previous year or years to these companies. In cases where Government has guaranteed to the railway companies a certain minimum rate of interest on capital outlay it has to make good the difference between the actual return and the guaranteed rate when the latter is higher than the former. But this payment is made by Government only as an advance, subject to the condition that if in any subsequent year returns above the guaranteed rate are earned by these companies they will repay to Government the amounts paid by Government in previous years on account of the deficiency in the guaranteed rate of interest. Such repayments are credited under the head XII—Subsidised Companies—Repayments of advances of interest.

Exhibition of railway earnings in the estimates and accounts.—The head XI "State Railways"

records the net receipts* from State Railways, *viz.*, gross earnings minus working expenses. Charges for interest, annuities, sinking funds, etc., and other miscellaneous charges are, however, shown separately on the expenditure side.

Rates and fares.—As the whole of the revenue from coaching and goods traffic depends upon the rates and fares charged by railways, it is of some importance to see how these rates and fares are fixed. The administration of railways in India is governed by the Indian Railways Act of 1890, but neither the Act nor the rules framed thereunder contain any provision as regards the fixing of rates and fares. In the contracts made with railway companies, however, the following clause regarding rates and fares is usually to be found:—

"The Secretary of State shall from time to time authorise maximum and minimum rates within which the Company shall be entitled to charge the public for services rendered by way of or in connection with the conveyance of passengers or goods on the undertaking and shall prescribe the several classes and descriptions of passengers and goods to which such rates shall be respectively applicable, as well as the extent to which, within the maximum or minimum so authorised, the Company may vary the said rates in respect of the distance or weight or special conditions under which such conveyance takes place or services are rendered."

The existing position, therefore, is that the Railway Board fixes certain maxima and minima, within which the railway companies can vary their

* The reason for this procedure will be explained in the chapter on Government Accounts.

rates as they please. The classification of goods is fixed by the Government of India, but the power of railways to vary the rates within the classification is very large. No legislation is required for enhancing or reducing rates and fares, or for varying the maxima and minima limits.

The question of regulation of goods rates by an outside authority was considered by the Acworth Committee, who recommended the creation of a Rates Tribunal. This recommendation is under the consideration of Government.

Railway Expenditure.

Main heads of railway expenditure.—Railway expenditure is of two kinds:—

(*i*) charged to revenue, and

(*ii*) not charged to revenue.

The meaning of the expressions 'charged to revenue*' and 'not charged to revenue' has already been given in the chapter on irrigation finance. The main principles governing the allocation of railway expenditure between capital and revenue are practically the same as those for irrigation expenditure—already given in the chapter on irrigation finance—but as there are important differences of detail the rules for railway expenditure are given in Appendix 11.

Under class (*i*) above are included:—

(*a*) Working expenses.

* For the sake of brevity expenditure charged to revenue is known as 'revenue expenditure', as contradistinguished from 'capital expenditure'. It is in this sense that the term 'revenue expenditure' has been used throughout this chapter. There is some capital expenditure also which is charged to the revenue account, but it is very small as compared with other capital expenditure.

(*b*) Interest on railway debt.
(*c*) Interest on capital contributed by companies.
(*d*) Annuities in purchase of railways.
(*e*) Sinking funds.
(*f*) Charges on account of subsidised companies.
(*g*) Miscellaneous railway expenditure, as well as
(*h*) Some capital expenditure on the construction of railways.

Under class (*ii*) is included mainly,

(*j*) the capital expenditure on the construction of railways, and
(*k*) expenditure on account of redemption of liabilities involved in the purchase of railways.

We will now deal with each of these heads of expenditure separately :—

Working expenses.—This head consists of two parts :—(1) Ordinary revenue expenditure, and (2) 'programme' revenue expenditure.

The head 'ordinary revenue expenditure' includes all expenditure on salaries, wages, consumable stores, minor repairs, etc., incidental to the working and upkeep of the line.

The head 'programme revenue expenditure' comprises "all revenue expenditure on renewals (including casual renewals) of rails, sleepers and fastenings, such as fish plates, fish bolts, spikes, points and crossings, switches, tongue tails, etc., and revenue expenditure on wholesale renewals or strengthening of bridges and girders involving a debit to capital."

(State Railway Code for the Engineering Department, 1st edition, 1921, para. 40, page 24).

Such expenditure is called 'programme revenue' expenditure for the following reasons :—

(*i*) It is carried out on a programme lasting over a period of years.

(*ii*) A part of it is associated with the 'capital programme' as some portion of the renewals is chargeable to capital, *e.g.*, in cases of replacement of light rails with heavy rails, or a more powerful engine or a large vehicle in substitution of one with smaller tractive power or lesser capacity.

The main items of expenditure under 'working expenses' are given below :—

(1) Maintenance of way, works and stations.
(2) Locomotive expenses.
(3) Carriage and wagon expenses.
(4) Traffic expenses.
(5) General charges.
(6) Steam-boat services.
(7) Special and miscellaneous expenditure.

The main item of expenditure under head (1) is renewal of rails, sleepers and bridges, which is in most cases necessary to bring lines up to standard. The cost of rails and sleepers has increased considerably as compared with pre-war rates.

Under head (2) the main items of expenditure are :—

(*i*) Fuel.
(*ii*) Maintenance and renewal of locomotives.
(*iii*) Running expenses.

The price of coal has risen very much in recent years and has affected working expenses considerably.

Item (*ii*) is fairly clear.

Item (*iii*) consists mostly of salaries and wages, which have also gone up a great deal within the last few years.

The main portion of the expenditure under head (3) is for repairs and renewals of vehicles, which nowadays cost very much more than in pre-war times.

Traffic expenses are mostly on account of the train and station staff. This expenditure must necessarily depend to a large extent on the volume of traffic handled.

The main items of expenditure included under general charges are salaries and wages of management, police and telegraph staff.

The head steam-boat services calls for no remarks.

Under head (7) the main items are contributions to railway provident funds and expenditure on compensation for goods lost or damaged. The expenditure on compensation "has in the last few years increased to an extraordinary degree, owing to the growth of pilferage and the increased value of goods." (Railway Administration Report, 1921-22, page 21).

During the last few years there has been an abnormal increase in the working expenses of railways. The extent of the rise will be gathered from

the percentages* of expenses to earnings given below :—

Year.	Percentage of working expenses to gross earnings.
1911	52·17
1912	48·92
1913–14	51·79
1914–15	54·19
1915–16	50·91
1916–17	47·26
1917–18	45·72
1918–19	48·45
1919–20	56·81
1920–21	65·54
1921–22	76·22

It will be noticed that prior to the war the percentage of working expenses to earnings was on an average about 50. In the later war years the proportion fell owing to the fact that both repairs and renewals were suspended, partly on account of lack of funds and the enforcement of strict economy as a war measure, and partly because materials could not be obtained from England. With the cessation of hostilities the old arrears had to be cleared off. Further, owing to the increased cost of living in recent years, wholesale increases in salaries and wages have been sanctioned on all railways. Under the pressure of strikes, railway administrations have been forced to grant further

* Figures taken from the Railway Administration Reports for the years 1920-21 and 1921-22.

concessions which have had the effect of increasing the working expenses. Moreover, materials and stores (and particularly coal) cost two to three times what they did in 1914, so every rupee spent nowadays represents only half (and in some cases even less) the value of what it did in pre-war days.

Interest on debt.—This head represents the interest chargeable to railways on account of capital outlay*. The items of which the railway debt is composed and the manner of calculation of interest thereon are given later on in this chapter.

Interest on capital contributed by companies.—This head represents interest on

(*i*) the existing share capital of the companies, and

(*ii*) debentures and debenture stock issued by the companies under the provisions of their contracts and on terms and conditions approved by the Secretary of State.

Annuities.—This head represents the annuities paid to the shareholders of the old East Indian Railway, the Eastern Bengal Railway, the Sind, Punjab, and Delhi Railway, the Great Indian Peninsula Railway, and the Madras Railway, on account of the purchase of their lines by Government. These annuities are all paid in England and represent an annual payment out of railway revenue of about £ 3,357,293 which was the amount paid during 1921-22. In this amount is included a sum of £ 262,000 represent-

* Interest is charged on all capital outlay, whether financed from loans or from revenue.

ing interest at 4 per cent. per annum on £ 6,550,000, being one-fifth of the commuted value of the capital stock of the old East Indian Railway Company, the proprietors of which availed themselves of the option of deferring payment of the portion of the annuity to which they were entitled, and formed the present East Indian Railway Company. This sum of £ 262,000 is shown in the accounts under a separate detailed head 'Interest in lieu of deferred annuity' under the minor head 'annuities in purchase of railways.'

All these annuities will be wiped out by the end of 1958 when the State will have acquired a magnificent property entirely out of revenue.

The payment of annuities entirely out of the railway revenue account is considered wrong in certain quarters. It is thought that part* of such payments should be charged to the capital account.

Sinking Funds.—This head was started in 1907—the expenditure being previously shown under 'Annuities in purchase of railways'—and represents expenditure incurred under Acts of Parliament by the Secretary of State in England. When the East Indian Railway was purchased in 1879 some of the annuitants preferred to have their annuity capitalised and to receive India 4 per cent. stock instead. As this measure would have involved a permanent addition to the

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* Annuities represent both capital as well as interest thereon. Interest is held to be correctly chargeable to revenue, but not the portion representing capital outlay.

debt, it was directed under the Act that in respect of the annuity so purchased and retained by the Secretary of State, one-ninth part should be invested in the purchase of securities which, together with the dividends accruing thereon should be applied so as to form a sinking fund until the public debt of India should thereby have been reduced to an extent equal to that by which it had been increased by the purchase of the annuity.

By two subsequent Acts, 42 and 43 Victoria C. 206 and 44 and 45 Victoria C. 53, power was given to the Secretary of State to purchase the annuities and other liabilities, by the creation of stock bearing a lower rate of interest than 4 per cent; a sinking fund being similarly formed by the investment of the difference between the interest in respect of the liability redeemed and the interest on the stock created for the redemption thereof.

Under the operation of these Acts of Parliament sinking funds have been constituted by the Secretary of State in Council by means of which he annually purchases portions of India stock issued for railway purposes and cancels them and thus reduces that portion of the public debt of India which pertains to railways.

In addition to the sinking funds above mentioned, there is what is called a 'discount sinking fund', which was instituted in the year 1885. The former system of borrowing in England was to raise loans at such a rate of interest as would induce those who lent the money to tender it at about par,

the amount of debt created was entered as a receipt in the cash account, and the premium or discount was included in the revenue or expenditure of the year. As the premium or discount was usually small the finances were not materially affected by such a procedure. When, however, in 1885 it was decided that the loan to be raised should take the form of stock standing at a discount of 15 per cent., it was evident that the budget would be very seriously altered thereby: and further there might have been difficulty under that system in determining at what rate railway companies were to be charged if moneys were borrowed at such a heavy discount in order to be advanced to them. It was accordingly decided to enter as a receipt the money raised, not the debt incurred, but it was provided that in each year such a sum should be invested and charged against revenue as would at 3 per cent. compound interest amount to the discount incurred, by the date when the option of redeeming the loan would first arise. In this manner it was proposed to spread the charge for the discount incurred in raising the loan by the creation of a sinking fund. Under the operation of the discount sinking fund (which applies not only to railway debt but also to other debts incurred at a heavy discount) India stock issued in connection with the purchase of the Oudh and Rohilkhand Railway has from time to time been purchased and cancelled.

Subsidised Companies.—Under this head is

recorded the cost of land required by certain railway companies, the contracts with which provide for the free supply of all land wanted for the purposes of the railway.

Miscellaneous railway expenditure.—Under this head are recorded the preliminary expenses incurred in connection with the setting out, demarcation, acquisition of land and surveys of railway projects for which no capital account has been opened. If after the result of the survey it is decided not to sanction the construction of the project, the debit to revenue remains, whereas if the construction of the project as a productive public work is sanctioned the cost of the survey and other preliminary expenses incurred is also brought on to the capital account of the project.

The other charges debited to this head are on account of the offices of the Railway Board, the Accountant-General, Railways, Government Inspectors of Railways, Offices of Government Examiners of Railway Accounts, etc. Government recovers from railway companies working State lines contributions for supervision, audit and control, which are adjusted by minus entries under this head, and debits to the head 'working expenses' of the respective lines.

Construction of State Railways.—This head records the main charges for capital outlay on railways. The outlay under this head is mostly incurred from loan funds and such

works are generally classed as productive public works.*

Redemption of liabilities involved in the purchase of railways.—Under this head are recorded disbursements in discharge of temporary or permanent debt incurred in the purchase of railways from companies, such as discharge of debentures taken over by the Secretary of State at the time of purchase, etc.

The Railway Budget.

The railway budget may be divided into three main parts :—

(*i*) the ordinary 'revenue' budget, *i.e.*, the budget for gross railway receipts on the one hand and ordinary working expenses (including fuel) on the other;

(*ii*) the programme revenue budget. This is the estimate of revenue expenditure, chiefly in connection with betterments and renewals;

(*iii*) the capital budget—relating to capital expenditure, both on open lines as well as new construction.

About the beginning of September in each year the head of each State Railway is required to submit to the Railway Board a quinquennial programme of capital and programme revenue expenditure for the ensuing five years. The preparation of such a

* The definition of productive public works has already been given in the chapter on irrigation finance. It also applies to railway projects. The procedure regarding the determination of productivity in the case of a railway project follows generally the lines indicated for irrigation projects in the chapter on irrigation finance.

programme is considered necessary to ensure the continuous and orderly development of railways and also to furnish an indication to the Finance Department of the probable railway requirements within the next five years. So far as capital expenditure is concerned the Railway Board has been assured of a sum of Rs. 150 crores for 5 years (Rs. 30 crores every year) with effect from 1922-23, with permission to carry over unspent balances of any year's allotments. The distribution of this amount over individual railway lines has been left to the Railway Board—subject, of course, to the final approval of the railway programme for the year by the Secretary of State—and is determined by them in consultation with the Agents, with due regard to the urgency of the works as well as their remunerative character.* As regards programme revenue, the Railway Board has to consult the Finance Department with a view to ascertaining what funds that department is prepared to give them for the ensuing year.† Such a consultation is necessary in the absence of a depreciation fund

* As railways are commercial undertakings the allotment of funds for any purpose is governed by considerations different from those prevailing in the public service departments. The main questions asked with regard to expenditure on a railway scheme are as follows:—

(a) Is it necessary for the safety of the traffic?

or (b) Is it necessary to earn the revenue?

or (c) Is it going to add to the earning capacity of the line?

Upon the answers to these questions depends the allotment of funds in most cases.

†On this point the Railway Administration Report for 1921-22 makes the following comment:—

"The difficulty in regard to fluctuating budgets and the evils of the system of lapses has thus been successfully surmounted so far as capital is concerned. But the same difficulty in respect of revenue renewals still remains."

providing for renewals on a fixed basis.* The Finance Department revises the figures of the Railway Board on the basis of treasury issues and past actuals and generally proposes a lower figure in the interests of accurate estimating. Reductions in the figure for programme revenue necessarily lead to a reduction in the figure for capital expenditure. The capital programme is then revised by the Railway Board and consolidated for the whole of India for submission to the Secretary of State.

About the beginning of September the Agent submits to the Railway Board his capital budget forecast for the ensuing year, with details of important works, showing separately the amount chargeable to (*i*) capital, and (*ii*) programme revenue. The budget is usually discussed with the Agent by the Railway Board and about the month of December—by when the orders of the Secretary of State on the railway programme have been received—the Railway Board place tentatively the requirements of each line for the ensuing year at certain figures for both capital and programme revenue expenditure and due intimation of the decision arrived at is given to the Agents concerned. They are then requested to revise their demands in the light of the funds made available for their use and to submit the preliminary capital budget estimate by the middle of January. Modifications in these figures are communicated to the Board by the middle of February.

* This difficulty also will shortly disappear with the institution of a depreciation fund.

By the end of October* each railway administration is required to submit to the Railway Board a six-monthly estimate of the current year (which with subsequent modifications in the light of later actuals becomes the revised estimate) together with a budget estimate for the ensuing year of its gross receipts and working expenses. In this the latter are shown under 3 main heads:—

(*a*) Ordinary working expenses;

(*b*) Fuel;

(*c*) Programme revenue expenditure.

The figure for (*c*) is given in lump, the details being already available in the capital budget. The Railway Board have thus to fix the figures for (*a*) and (*b*) for the budget estimate. This is a task of some difficulty. The cost of fuel—which is a fairly heavy item—is not easy to estimate. The price of stores and materials varies with market fluctuations and establishment charges also vary to a certain extent according to the requirements of traffic. A slight error on either side makes a large difference in the total figures and may turn an estimated profit† into an actual loss or *vice versa*. It was for this reason that the Indian budget was once termed by the late Sir William Meyer as a gamble in railways

* At the same time the six-monthly estimate for capital expenditure in the current year is also prepared. It shows whether excesses or savings in the grants under the capital heads are expected, and if the former, steps have to be taken to put things right at once.

† The total of net profits from railways as budgetted and as actually realised will show at a glance how very widely the estimates framed with such skill and care differ from actuals:—

The revenue and capital expenditure estimates —both revised and budget—of all the railways are then compiled by the Accountant-General, Railways, and forwarded—with a note on each major head dealing with both revised and budget figures—to the Finance Department in December for inclusion in the budget of the Centıal Government. The procedure with regard to the revision of the figures by the Accountant-General,a Rilways, and the Finance Department is the same as for other departments and has been explained in the chapter on the preparation of the budget. Roughly speaking, the Finance Department not infrequently adopts a higher figure in respect of earnings, on the basis of latest actuals of the current and previous years. As regards working expenses they are admitted as inevitable, though the estimate may be considered unreasonable. Whenever it becomes necessary to effect reductions in the estimates of working expenses, the practice of the Finance Department is not to go into details, but to specify

Statement of net profits on capital outlay of State Railways from the year 1916-17 to year 1921-22 as budgetted and as actually realised in millions of pounds.

Net profit			£ millions.	
1916-17	..	Budget	2·8	
		Actual	7·5	
1917-18	..	Budget	5·6	
		Actual	9·8	
1918-19	..	Budget	2·5	
		Actual	10·5	
1919-20	..	Budget	7·9	
		Actual	9·2	
1920-21	..	Budget	6·5	
		Actual	3·8	
1921-22	..	Budget	2·7	
		Revised	—6·2	(loss)

the sum to be retrenched, leaving it to the Railway Board to decide upon which railways or works this reduction should be effected. As stated in paragraph 53 of the Report of the Acworth Committee, "the officials of the Finance Department, with their long experience, their access to past records and to statistics and information obtained from many quarters and in many ways, are able to make a better estimate of future probabilities than any individual railway Agent."

About the first week of March the railway budget figures, both for revenue and capital expenditure, are submitted along with the general budget, by the Finance Member to the Legislative Assembly. Votes are taken for all heads, except for interest on railway debt and other interest charges on account of railways, for annuities in purchase of railways and for sinking funds. These heads are non-votable under section 67 A (3) of the Government of India Act. Even though the working expenses are shown by a minus entry on the receipt side in the budget, the vote taken is for the gross working expenses.

After the estimates have been voted and adopted by the Governor-General in Council the Railway Board begins the work of distributing the grants as finally sanctioned over individual railways. The railway administrations are requested to re-distribute by minor heads the grants allotted to them by the Board and to submit final issues of the

estimates—both revenue and capital—so as to reach the Board by the 1st May. 'Establishment rolls and working estimates' for each line, which give details of revenue expenditure for the line, particularly of the establishment employed in each department and the detailed allotments for each department, are also prepared and submitted to the Railway Board after the despatch of the final issue.

The Railway Board is responsible to the Legislative Assembly to see that no vote is exceeded. In its turn it exercises control over the allotments that it makes to individual lines. The grant for working expenses for each line is distributed as follows:—

(1) Ordinary working expenses;

(2) Fuel;

(3) Programme revenue expenditure.

Under each of these heads expenditure is to be restricted to the amount allotted therefor. The power to reappropriate funds for outlay in excess of the limit prescribed for any one of the above heads, by transfer of savings expected in the provision for the other head or heads, is reserved to the Railway Board. Sanction of the Railway Board is also necessary to re-appropriations from and to the head 'general superintendence' and also between the amounts allotted to each department under 'general superintendence.' Funds set apart from the grant for programme revenue for (1) coaching vehicles,

(2) goods wagons and (3) locomotives have to be reported to the Railway Board, and cannot be diverted to any other object without the previous approval of the Railway Board. Similarly, the amounts proposed to be reserved from the capital grant under the head "53" Construction of State Railways, including the re-allotted carry forward for (1) coaching vehicles, (2) goods wagons, and (3) locomotives have to be reported to the Railway Board and any important variations as compared with the figures in the statement of demands briefly explained. The amount so reserved cannot be diverted to any other purpose without the previous sanction of the Railway Board.

In order to watch the progress of actuals against estimates, the estimated gross traffic receipts and the estimated working expenses of each line are distributed over each month of the financial year, in the light of past experience and available data for the year in question. In this manner a progressive total of both budgetted receipts and budgetted working expenses is worked out month by month and a monthly comparison with actuals is made and reported for the information of the Railway Board and the Finance Department, with explanations of material variations from the budget proportion for the period in question.

RAILWAY DEBT.

The total Railway Debt of India amounted on the 31st March 1922 to Rs. 426·1 crores.

The railway debt consists of two parts, *viz.*, the specific and the non-specific debt. Specific debt means that portion of the public debt which has been incurred specifically for railways. The major portion of this debt has been incurred in England by the Secretary of State and consists of India stock (and a small portion in India bonds) issued in redemption of a portion of railway annuities, debenture stock and debentures of railway companies and for purchase of undertakings of railway companies.

The specific railway debt incurred in India is very small and consists mostly of loans raised from certain Ruling Princes for construction of railway lines through their territories. The non-specific debt is debt which has not been specifically incurred for railway construction, but has been borrowed for the general purposes of the Government.

The calculation of interest on railway debt is somewhat as follows:—

On the specific debt the whole interest as actually paid under the terms of each issue is charged.

On the non-specific debt, the procedure is as follows:—

(*a*) on capital outlay to end of 1916-17 interest is charged at 3·3252 per cent.

(*b*) on capital outlay during subsequent years interest is charged at the average rate paid on the total borrowings of that period. The outlay is calculated as the sum of the outlay incurred during completed years plus half the outlay incurred during

the year for which the account is being made up, *e.g.*, if the calculation of interest is to be made for the year 1920-21, the outlay will be taken from 1917-18 to 1919-20 and for the year 1920-21 only half the outlay incurred during the year will be taken. The rate of interest under this section is calculated with reference to the amount of loans issued since 1916-17 and the interest paid in respect of each of them. This rate is much higher than the pre-war rate. "Prior to the war, the average rate paid for capital raised was under 3½ per cent. But on all capital expenditure since 1916-17 the rate which has to be allowed is 6·1038 per cent. The result of the increased rate combined with the necessity for heavy capital expenditure has raised the Government liability by over Rs. 5 crores since 1913-14." (Railway Administration Report, 1921-22, para. 9, pages 8-9.)

Funds for Railway Capital Expenditure.

Railway capital expenditure in India has been financed from the following sources:—

(*i*) revenue surpluses;

(*ii*) appropriations out of the old annual famine insurance grant;

(*iii*) savings bank deposits;

(*iv*) appropriation from profits on rupee coinage; and

(*v*) amounts borrowed in the open market in India, or in England, by the Secretary of State or by Railway Companies.

The main source at present is loan funds.

In accordance with the recommendation of the Mackay Indian Railway Finance Committee of 1907 a sum of £1,123,655 was spent on railway construction in 1907-08 out of the profits on rupee coinage. But since then no amount has been so spent from these profits.

The method of financing railways in the future was considered by the Acworth Committee, who made the following recommendations:—

(*i*) State-owned railways must be financed solely by the Central Government.

(*ii*) The money required for Indian railways should, as far as possible, be raised in India.

(*iii*) The precise method, however, to be adopted on each occasion cannot be laid down in advance. Methods must change from time to time according to financial conditions, as to which only experts in daily contact with the market can form an opinion.

The Committee realised the need for large capital expenditure for fresh railway development but they felt that the need of the existing lines was much greater. For this reason they recommended that future development must wait and as much money as could be made available should be devoted to the rehabilitation and bringing up to date of the existing system in the shortest possible time.

These recommendations were considered by a committee of members of the Indian Legislature,

known as the Railway Finance Committee, which reported in December 1921 as follows:—

(1) That the programme of railway capital expenditure should be prepared on a five-year basis, the provision for each quinquennial period being considered about 2 years before the termination of the existing period.

(2) That there should be no lapse of money voted for any one year but not spent within that year; such sums should be carried on to the credit of the Railway Administration up to the limit of the total amount fixed for the quinquennium.

(3) That the finance programme should be strictly adhered to, subject of course to the understanding that a war or other unforeseen contingency radically disturbing the money market might render it necessary to curtail the programme in any one year.

(4) That the programme for capital expenditure during the next five years should be fixed at 150 crores; and

(5) That this sum of money should be devoted to rehabilitating existing lines (paramount stress being laid on the improvement of the conditions of travel of third class passengers) and to the completion of lines already under construction.

The above recommendations were discussed and adopted by the Legislative Assembly at the meeting held on the 27th March 1922 and are now put into operation by Government.

Separation of Railway from General Finance.

The above recommendations of the Committee of the Indian Legislature practically worked in the same direction as that part of the recommendations of the Acworth Committee which was to the effect that the Finance Department should cease to control the internal finance of the railways; that the railways should have a separate budget of their own, be responsible for earning and expending their own income and for providing such net revenue as was required to meet the interest on the debt incurred or to be incurred by the Government for railway purposes. The main reason for the change suggested was that as long as railway finance was bound up with general finance railways could never be assured of a continuous policy of development, grants being liable to be cut down arbitrarily at any time on the ground of the exigencies of general finance. Moreover, it was held that as the lapse of unexpended balances of grants on the expiry of the financial year was an integral part of the budget system and as the system of lapses led to waste and extravagance and prevented railway officers from distributing their expenditure equably throughout the year as might be best needed for their requirements, no hope of improvement in the future could be entertained as long as lapses were the rule. For these reasons the separation of railway from general finance was recommended by the Acworth Com-

mittee. This question also was referred to the Railway Finance Committee along with the question of funds for railway capital expenditure. "After full discussion the Committee came to the conclusion that the question of separating railway finance on the lines laid down by the Acworth Committee was outside the domain of practical politics in the existing state of Indian finance. They recommended, however, that the question should be re-examined three years hence when it might be hoped conditions would be more normal and financial equilibrium would be re-established." (Railway Administration Report, 1921-22, para. 3, page 3). The Assembly has not yet expressed its opinion regarding this point.

Depreciation Fund.—The absence of a proper depreciation fund* for State railways has been the subject of much comment. At present, renewals are financed out of programme revenue expenditure and the provision made is naturally subject to the exigencies of general finance and to the ordinary budget rule of lapse. This point was also considered by the Railway Finance Committee, who made the following recommendations:—

"We consider that the present method of providing for depreciation, not by a proper depreciation fund, but by allotting each year a grant from revenue for expenditure on renewals and replacements, is open to many objections. We therefore

* One of the difficulties in the formation of a depreciation fund, so long as railway finance is bound up with general finance, is that it is 'inconsistent with the ordinary scheme of Government finance to set aside for the future money not actually required for the current year's expenses' (Railway Administration Report, 1921-22, para. 5, pp. 4-5).

recommend that early steps should be taken to calculate the rates of depreciation which should be allowed for the various classes of railway plant and material in order that the recurrence of the deterioration which has taken place in recent years may be avoided and depreciation for renewals and repairs provided for automatically."

This question is still under the consideration of Government. The principle has been accepted.

Powers of Financial Sanction.—The powers of financial sanction of the Government of India and the Railway Board in railway matters are reproduced by Government in book form for departmental use. The powers of heads of railway administrations and of the heads of departments under their control are to be found in the State Railway Codes. It would be impossible to reproduce all of them here and consequently a few of the main items of the powers of the Government of India and the Railway Board are given in Appendix No. 11-A.

CHAPTER 8.

THE NATIONAL DEBT.

Before dealing with the subject it will be convenient to give brief definitions of certain financial technical terms used in connection with public debts, which may not be generally known to the average reader.

Floating and Permanent Debts.—National debts are of two kinds, floating and permanent. A floating debt is repayable within a short period, a few years or even a few months. Such debts are also called unfunded debts, for the reason that they do not form part of a single consolidated fund or debt bearing interest at a fixed rate. In India, however, the practice is different. The unfunded debt here consists mostly of savings bank deposits and deposits of a few funds which keep their balances with Government and not, as it would mean in England, short-dated bills.

Debts of a government which need not be repaid for a long term of years are called fixed or permanent debts.

Ways and Means Advances.—Floating debts take various shapes according to the needs of the government. First of all there are what are called 'Ways and Means advances.' It often happens that

revenue does not come in regularly throughout all the months of the year, whereas expenditure is distributed more or less uniformly throughout the year. Also sometimes exceptionally heavy payments have to be made at a certain period of the year by when the revenue has not sufficiently accumulated to meet them. To enable them to tide over such temporary difficulties governments take advances from banks. Both the principal as well as the interest of such advances are usually repaid as soon as the revenue comes in and in any case by the end of the year. In India such advances have been taken by Government from the Imperial Bank of India in recent years.

Treasury Bills.—Ways and Means advances are usually taken only from recognised banks or the bank with which the government does its financial business. Treasury bills, however, are bills which governments issue to the public. These bills are for short periods (from 2 or 3 to 12 months), but usually longer than for Ways and Means advances and have to be repaid on maturity, unless renewed. Treasury bills, which are renewed from time to time, are really a part of the permanent debt of the country kept in a floating form. They may be issued in two ways. Either competitive tenders may be invited or the rate of issue may be fixed. When competitive tenders are invited Government usually issues a notice stating the minimum amount for which individual applicants may tender, the day on which payment must

be made and the day on which they will be repaid by Government. The tenderers, looking to the prevailing rate of interest, offer to pay a certain price, and in calculating this price they deduct from the amount which they will receive in repayment on the maturity of the bills, a certain percentage as interest on the money which they offer to advance. This percentage is called the rate of discount. By the system of tenders, if judiciously worked, Government usually obtains better rates than by sale at fixed rates. Moreover, the sale of Treasury Bills by tender has the advantage that, instead of the rates for money in the market being to a considerable extent regulated by the rates fixed by Government for Treasury Bills, the rates for Treasury Bills follow the market rates for money, which are determined by the economic forces of supply and demand.

Treasury Bills were issued for the first time in India in 1917 and have now become a permanent feature of the ways and means arrangements of the Government and a portion of the more or less permanent debt of the country is now held in the shape of Treasury Bills which are renewed from time to time on maturity.

Government Bonds.—Another form in which the floating debt is held is what are known as Exchequer or Government Bonds. These bonds are issued for longer terms than Treasury Bills and usually are for periods of 3, 5 or 10 years. Such loans were started during the war and the major portion of the short-term debt of India is now held

in this form. The funding of this debt is a matter of considerable importance to Indian finance.

Debentures and Debenture Stock.—Closely allied to Government Bonds are what are known as debentures and debenture stock. Debentures are issued for a specified period and are repayable by a fixed date. Loans in this form have generally been issued in England in connection with Indian Railways, either by the Secretary of State for India or by the Railway Companies on the guarantee of the Secretary of State. Usually the holder of a debenture has a charge on the undertaking to which he lends money, and can enforce his rights either by appointment of a receiver or by foreclosure and sale. The debenture holder of an Indian State Railway has, however, no such charge. He has only a personal contract with the owner of the undertaking, namely, the Secretary of State.

Debenture stock differs from short-term debentures in so much that it is redeemable at some distant date at the option of the person making the issue, and there is no promise to repay the money borrowed within a specified time. The only debenture stock held at present is by the Secretary of State in London on account of certain railway companies, *viz.*, the East Indian Railway, the Eastern Bengal Railway, the South Indian Railway and the Great Indian Peninsula Railway. Of these the East Indian and South Indian Debenture stocks bear interest at 4½ per cent. and

the remaining at 4 per cent. This stock is irredeemable and was taken over by the Secretary of State at the time of purchase of the companies as a part of their outstanding liabilities on the terms on which they were originally issued.

Annuities.—These are issued for a specified period in fixed sums payable every year in repayment of both the principal and interest of the loan. For instance, when the East Indian Railway Company was purchased by Government in 1879, its share capital was fixed at £ 32,750,000. As the payment of this amount in one lump sum was not considered convenient it was decided to spread the payment over a long term of years. Taking the rate of interest at 4 per cent. per annum, it was decided that the shareholders of the Company should receive a fixed sum of £ 1,473,750 annually, payable from 1880 and terminating in 1953. Similar terminable annuities are also paid to the shareholders of the old Eastern Bengal Railway, the Great Indian Peninsula Railway, the Madras Railway and the Sind, Punjab and Delhi Railway (now known as the North-Western Railway).

Post Office Cash Certificates.—One of the many lessons taught by the war was the necessity of enlisting the sympathies of the small investor and of encouraging him to invest in Government loans. For this purpose the British Government had started what were called *National War Saving Certificates.* The same idea was taken up in India and Post Office Cash Certificates were issued for the first time in 1917 and have

since become a permanent feature of Indian finance. These certificates have been felicitously designated as currency notes bearing interest. They are issued for a period of five years, but can be repaid at any time during this period at the option of the holder of the certificate. These certificates are for sale all the year round and can be obtained at any post office which does savings bank business. Payment of the amount due can also be obtained at any post office. Sir Basil Blackett drew attention to the necessity of further encouraging the habit of investment in this country in his budget speech in March 1923 and it is due to his initiative that postal certificates are now issued at a rate which earns at maturity a bonus of 6 per cent. compound interest, free of income tax, in place of the old rate of about 5¼ per cent. (also free of income tax).

Permanent Debt.—The main feature of fixed or permanent or non-terminable debts is that there is no obligation on the part of Government to repay such debts at the expiry of a specified period, but Government usually reserves to itself the option of repaying them, if it chooses, after a particular date on giving due notice. The Government only promises to pay interest at a certain rate on the debt and the possibility of redemption of the debt is reserved to it as a right but not as a liability. The rupee loans issued by the Government of India before the war were of this character and it is only after the war that terminable loans began to be issued.

Forms of Government Securities.—The three main forms of Government securities in India are :—

(1) *Stock.*—When debt is held in this form the owner is given a certificate to the effect that he has been registered in the books of the Public Debt Office as the proprietor of a certain amount of Government stock. This certificate is known as a stock certificate. It is a very convenient form of security for a person who does not wish to negotiate it and is immune against loss by theft, fire, etc., and is of no value in the hands of a wrongful holder. Interest is paid on warrants made payable at any treasury or sub-treasury at which payment is desired.

(2) *Bearer Bonds.*—At the other end, with regard to negotiability, stand Bearer Bonds which certify that the bearer is entitled to a certain sum of rupees in respect of the loan to which the bond relates. Such bonds are made payable to bearer and so far as Government is concerned possession is sufficient to constitute ownership like a currency note. Transference can be effected without any formalities and by the mere handing over of the bond by the transferor to the transferee. When the loan in respect of which the bond has been issued falls due for payment, the amount due on the bond is paid to the actual presenter without any inquiry as to the status or title of the presenter and with no regard to any endorsement that may appear on the bond. Interest coupons are attached to each bond and

payment is made on due date to the presenter of the coupon at the Public Debt Office or at the treasury at which the bond is registered for payment of the coupon or at any sub-treasury subordinate to such treasury. This form of security, however, suffers from the defects of its qualities, as it affords opportunities to wrongful holders and the mere loss of the bond deprives the owner thereof of any right or title in it.

(3) *Promissory Notes.*—Mid-way between the stock certificate and the bearer bond as regards negotiability stands the promissory note, which contains a promise by the Governor-General in Council (or Governor in Council) on behalf of the Secretary of State for India, to pay a certain person a specified sum either on a specified date or after certain notice (according to the terms of the particular loan to which the promissory note relates), and to pay interest thereon at a certain rate half-yearly on specified dates.

A promissory note is negotiable by endorsement, cages for which are printed on the back of each note. Interest is payable at the treasury on which the note is enfaced or any sub-treasury subordinate to such treasury, on presentation of the note itself.

Each of the above three forms of securities, namely, Stock Certificates, Bearer Bonds and Promissory Notes, is convertible by the holder into either of the other two.

THE TOTAL NATIONAL DEBT.

The national debt of India now consists of two distinct classes:—(*i*) Loans raised by the Government of India, and (*ii*) Loans raised by the provincial governments, under the Local Government Borrowing Rules. Loans of class (*i*) are raised on the security of central revenues, while those of class (*ii*) are raised on the security of provincial revenues. Loans in both classes (*i*) and (*ii*) are raised by the Governments concerned not in their own name but on behalf of the Secretary of State in Council. Further reference to provincial loans will be found in a separate chapter in the section relating to provincial finance.

On the 31st March 1922,* the total Government of India debt was Rs. 613 crores, excluding about Rs. $4\frac{1}{3}$ crores of Post Office Cash Certificates and Rs. 112 crores of floating debt in the shape of Treasury Bills, of which nearly 58 crores were placed in the Paper Currency Reserve and 54 crores were in the hands of the public. The debt was almost equally divided as regards location between England and India, the rupee debt being 305·36 crores and the sterling debt (converted at Rs. 15 to the pound sterling) 307·46 crores.

STATUTORY POSITION WITH REGARD TO RAISING OF LOANS IN ENGLAND AND IN INDIA.

In England, His Majesty's Government have

* On the 31st March 1923, the estimated total debt was Rs. 781 crores. Out of this Rs. 557 crores is classed as productive, leaving only Rs. 224 crores as ordinary or unproductive debt, *vide* pages 108-109 of the official publication, "India in 1922-23."

to receive statutory sanction for all loans raised by them. For meeting temporarily, in anticipation of revenue, the needs of what are known as the Consolidated Fund Services, the Treasury has permanent authority, under section 12 of the Exchequer and Audit Departments Act, to borrow from the Bank of England. Such borrowings are known as 'Deficiency Advances.' For similar needs of the Supply Services, the Treasury receives annual authority in the Consolidated Fund and Appropriation Acts. Such borrowings are known as 'Ways and Means Advances.'

For issuing Treasury Bills also, the Treasury has been given power under the Treasury Bills Act of 1877 (40 Vict. C. 2) to issue bills for certain purposes. In 1902 the Treasury was authorised to borrow on Treasury Bills for Ways and Means purposes and a provision to this effect is made in the annual Appropriation and Consolidated Fund Acts which also require that such bills should be repaid during the course of the financial year.

With regard to Exchequer Bonds, the Treasury has no standing authority, as in the case of Treasury Bills, either under a permanent statute or under statute annually renewed. Every issue of Exchequer Bonds must be authorised by an Act of Parliament, based upon a specific resolution passed in the Committee of Ways and Means; and such issues are authorised for special purposes only.

Similarly, for the creation of terminable annuities specific statutory authority is needed. With

regard to permanent debt the position is the same. A resolution authorising the Treasury to make the issue is introduced in the Committee of Ways and Means. Statutory authority is given to the resolution by the next Consolidated Fund Act or Appropriation Act or by a special Act.

The position with regard to Indian loans is different, according as the loan is raised in India or in England. Indian loans raised in England are governed by the procedure applicable to British Government loans generally, as outlined above. The statutory position was explained by the Under-Secretary of State for India—Earl Winterton—on the report stage of the resolution passed in the Committee of Ways and Means of the House of Commons, in connection with the East India Loans (Railways and Irrigation) Act, 1922:—

"The Government of India are free to borrow money in India without authority from Parliament. That has been the position ever since the Government of India Act in the fifties, and they do, of course, raise money in the way Governments raise money in India. But under the Government of India Act money can only be raised in the United Kingdom by the Secretary of State on behalf of the Government of India to such an extent as is authorised by Act of Parliament. For that reason, ever since the Government of India Act was passed, the Government of India, through the Secretary of State in this House, has come to Parliament from time to time to get authority to raise money in this country for its future requirements."

Parliamentary sanction for Indian loans raised in England is required under section 75 of 9 and 10 Will. 3, C. 44 (repealed, with savings, by the Statute

Law Revision Act, 1892) and subsequent enactments, including section 15 of the East India Company (Money) Act, 1793 (33 Geo. 3, C. 47). Whenever the East India Company wanted to raise money in England an Act of Parliament had to be passed to authorise the issue and there are still on the statute book a whole series of such Acts, which have not yet been consolidated. When the East India Company was abolished by the Government of India Act, 1858, section 49 of the Act—which section still remains unrepealed, though not incorporated in the consolidated Government of India Act, on the ground that it was unnecessary—transferred all the borrowing powers of the Company to the Secretary of State in Council. Consequently, the Secretary of State has to obtain Parliamentary sanction for Indian loans raised in England, as the Company had to do the same. There is a long series of East India Loan Acts, authorising such issues by the Secretary of State, beginning with East India Loan No. 2 Act, 1859 (22 and 23. Vict., C.-30), the latest* being the East India Loans (Railways and Irrigation) Act, 1922 (12 Geo. 5, C. 9). Whenever the authority granted by an Act is spent a fresh Act is needed for further issues.

In reply to a question asked in the Legislative Assembly and the Council of State in September 1922 Government pointed out that if these statutory

* Since this was written news has been received of a further Bill introduced in the House of Commons on June 27, 1923, seeking to raise in England on behalf of India £50 million for railways and irrigation and £15 million for general purposes. The bill has now been passed.

restrictions were abolished, Indian sterling loans would automatically cease to be trustee securities under the Trustee Act and that this would greatly lessen their value from the investor's point of view. In order to keep them in the category of trustee stocks, Government would have to secure legislation in the United Kingdom on the lines of the Colonial Stock Act of 1900. They, however, considered that the time was not opportune for asking the Home Government to undertake legislation of the kind.

The position is somewhat peculiar as the Dominion Governments are not required to obtain Parliamentary sanction for loans raised by them in the London money market and the sanction of the British Parliament in the case of Indian sterling loans does not in any way imply an Imperial guarantee in respect of payment either of the principal or the interest of such loans, for which the funds of the Indian Government alone are responsible.

No statutory authority is traceable for the raising of rupee loans by the Government of India, but such loans are raised in the name of the Secretary of State in Council, by whom authority is conveyed to the Governor-General in Council on each occasion. The East India Company was not required to obtain statutory authority for such loans and accordingly the Secretary of State in Council also does not require any such authority.

The local Governments, however, act under statutory authority specifically conferred on them by the Government of India Act, 1919, and the Local Government Borrowing Rules.

Sinking Funds.—India has no sinking fund established by law*, as in England, and no enactment of the Indian Government appropriates surplus revenue to the reduction of debt, though in practice much borrowing has been avoided by the utilisation of revenue surpluses for capital expenditure on railways and irrigation. For wiping out liabilities incurred in connection with the purchase of certain railways there are sinking funds established by Acts of Parliament to which reference has been made in the chapter on railway finance. In addition, Rs. 154 lakhs are set aside annually in India for the purchase† and cancellation—through the Controller of the Currency—of the scrip of the two 5 per cent. Government of India Loans 1929-47 and 1945-55, so long as the market price of these securities is below the issue price of 95. As regards sterling liabilities, £ 500,000 is paid every year by the Secretary of State for India to His Majesty's Treasury towards the cancellation of India's liability for that portion of the British Government War Loan 1929-47 which was taken over as India's War contribution.

* These remarks apply only to loans raised by the Central Government. With regard to loans raised by Provincial Governments sinking funds have to be established for loans for unproductive works, under rule 2 (*ii*) of the Local Government Borrowing Rules, *vide* the chapter on control over borrowing.

† The Inchcape Committee has recommended that the purchases for the sinking funds be made periodically by open tender.

The Administration of the Public Debt.

The administration of the public debt in India and the maintenance of the accounts relating thereto are vested in the Central Public Debt Office, Calcutta, which is managed on behalf of Government by the Imperial Bank of India and works under the general instructions of the Controller of the Currency.

Similarly, in England, the sterling debt of India is managed by the Banks of England and Ireland. The rupee debt of the Government of India enfaced on London was till recently managed by the Bank of England, but with effect from January 26, 1924 this work will be taken over by the London Office of the Imperial Bank of India.

For this work the Imperial Bank of India and the Banks of England and Ireland are paid at fixed rates, depending upon the amount of the debt registered on their books. The rate payable to the Bank of England is £ 300 per million of the debt and to the Bank of Ireland at £ 360 per million.

The rate paid to the Imperial Bank of India for the debt of the Central Government is Rs. 2,000 per crore of the debt. Provincial Governments make their own arrangements with the Imperial Bank for the management of the provincial debt.

Present Day Tendencies.

Previous to the war the amounts raised in India seldom exceeded Rs. 3 crores in any year and even

then there were some years in which the Indian market was not tapped at all, reliance being placed to a much greater extent on the London money market. But this is no longer the case and as much amount as can be raised* is now taken annually from the Indian money market and it is only the balance of the requirements of Government that is met by a sterling loan in London. This practice has many advantages. First of all there is the general political advantage of a country holding its own debt and not having too much external debt. For instance, the greater the number of holders of rupee paper in India, the stronger the interest and stake they have in the stability of the Government. Secondly, the smaller the sterling debt the lesser the burden of 'home charges,' as a lesser amount has to be remitted outside India to meet interest or redemption charges, etc. This tends to ease exchange and to prevent its falling very much during a year of adverse balance of trade. In all such matters, however, the prime consideration is the interest of the general tax-payer and the undesirability of borrowing in such a way as violently and suddenly to depreciate the previous issues, whether in India or in England.

The main portion of the National Debt of India is no charge on the tax-payer, but on the other hand has been invested in developing the resources and wealth of India, mainly on the construction of rail-

* The amounts now raised are considerably greater than in pre-war days. For instance, during the year 1922-23 a sum of about Rs 47 crores and during 1923-24 a sum of about Rs. 24 crores were raised in India by the Central Government alone.

way lines and irrigation canals, whose direct and indirect returns to the treasury have been substantial. On the 31st March 1922, the productive debt on account of railways and irrigation amounted to Rs. 492·2 crores, the figure for the railway debt being Rs. 426·1 crores, and for the irrigation debt Rs. 66·1 crores. It will thus appear that out of a total debt of 613 crores,* only 120 crores or 20 per cent. is the ordinary debt, which is even less than one year's revenue of the Central Government.

Prior to the war the Government of India, in spite of constant pressure brought to bear upon them by non-official opinion, followed a strictly conservative policy in the matter of raising loans and meeting outlay from such funds. They adhered to the policy laid down by Sir Stafford Northcote that only such works should be provided for by loans as might fairly be expected to yield a net return equal to the interest on the money borrowed. For non-productive works they never raised any loans and they constructed several productive works also out of revenue. They persistently set their face against the suggestion to transfer expenditure from revenue to capital on works such as civil buildings, roads and bridges, barracks, special defence works, etc., which have a permanent or semi-permanent life. As Mr. Massey, a former Finance Member, said very long ago:—" A plausible pretext can always be found for transferring charges from revenue to capi-

* In this figure the amount held in Treasury Bills and Postal Cash Certificates is not included.

tal. How long such a system could go on I do not know; but, sooner or later, it would end in the collapse of public credit."

But during the last few years the practice has changed. As the late Sir William Meyer pointed out in his evidence before the Acworth Railway Committee* :—

"I think you may take it that the system of borrowing will be applied more largely in future. Hitherto the borrowing has been for Railways, for Irrigation and for what they call productive expenditure. The non-productive debt was, before the war, reduced to a very small amount. Now you have got the new capital at Delhi, that is being financed out of loans. It is not very much in itself, but it shows the tendency. There is a very strong demand on the part of the forestry people to borrow a great deal for the forests,† on the ground that it will be really productive expenditure. The other‡ day, in the discussion on the budget in the Indian Legislature, it was proposed to borrow, I think, a certain amount for the construction of telegraph lines. I instance these things to show that as time goes on (and I think you may take it that a democratic government is always rather more extravagant than a bureaucratic government) the tendency will be to borrow more and more."

The same tendency is noticeable in several provinces, in whose budgets provision is now made

* See Volume II, Acworth Railway Committee Report, page 253. Question No. 8288.

† Since then capital heads have been opened in the accounts and estimates of several provinces for forest expenditure, as well as for expenditure on buildings, sanitation and drainage works, as well as other works. All this expenditure is met out of borrowed funds. In addition to these capital heads there are the 'revenue expenditure' heads in each of these cases.

‡ Sir William Meyer's remarks were made on the 8th June 1921. The reference is to a proposal made in the budget debate in March 1921 for a separate capital account of the Telegraph Department, which proposa has since been given effect to.

under capital heads for several items of expenditure which were previously met out of revenue, and to this extent their financial position has to be discounted for purposes of comparison with the past. As an instance, may be cited the following observations made by the Finance Member of the United Provinces in the Legislative Council, while presenting the budget for the year 1921-22 :—

"We have made rough calculations which show us that the total amount of non-recurring expenditure included in the budget is between 95 and 100 lakhs, of which at least 70 lakhs ought to be met from capital. These charges are for works of development in connection with sanitation, water-works, educational buildings, agriculture, communications and public buildings; objects in the main directly or indirectly productive. The expenditure on these objects should be met from capital, in other words, by raising a loan; nor can there be any doubt that such action will be fully justified. It is theoretically wrong to saddle one generation with the entire cost of improvements carried out for future benefit; and from the practical point of view these works are necessary unless the province is to stagnate."

The above would seem to present a very wide scope for the employment of loan funds; for, as was pointed out by a non-official member during the course of the debate, "indirectly speaking there is no subject really which is not concerned with the welfare of the people, everything that tends to promote their happiness is productive, but if you adopt that definition there is not a single item in the budget to which this description cannot be applied."

It is true that provincial governments have to provide sinking funds for the amortization of loans

devoted to objects not financially remunerative, but it is possible to conceive, as was pointed out during the course of a debate in the Madras Legislative Council, of a policy of applying loan funds to unproductive objects on such a large scale that the amount to be devoted annually to sinking funds for such loans might grow to such dimensions as would leave very little for the general administrative needs of the province—a danger not quite imaginary as "every one knows that the temptation to please the present generation at the expense of posterity is particularly strong in popular governments." (Bryce's Modern Democracies, Vol. II, page 320.)

CHAPTER 9.

CASH BALANCES.

The cash balances of Government may be considered under the following headings, *viz.*:—

(1) Treasury balances ;

(2) Gold Standard Reserve balances; and

(3) Paper Currency Reserve balances.

TREASURY BALANCES.

These are the balances which are frequently mentioned in financial statements and budget discussions, and it is on these that Government has to rely for carrying on the administration, as well as for financing its capital programme and the various transactions under debt and remittance heads. In these balances are included :—

(*i*) revenue surpluses of past years ; (*ii*) unexpended balances of loans raised, Central and Provincial ; (*iii*) cash balances of provincial governments, as well as balances of their famine insurance funds ; (*iv*) balances of deposits of savings banks and service funds ; (*v*) balances of a large number of municipalities and local funds, etc.

It will thus be obvious that the treasury balances do not represent money belonging to the Government of India, any more than does the cash balance of a bank represent property belonging to its shareholders. Therefore, the size of the treasury balance is no true index of the soundness of the financial

position of the Government, for a full treasury may go hand in hand with a large volume of loans. If the only transactions to which Government was a party were on account of revenue and expenditure (chargeable to revenue), the size of the treasury balance would reveal at once the true financial position in just the same way as the balance of a private individual with his bank would show how he stood financially at any time.

Treasury balances are partly kept in India and partly in London. The revenue is received almost entirely in India, while considerable expenditure is incurred in London by the Secretary of State and the High Commissioner on behalf of India. The Government of India have, therefore, to keep a certain portion of their treasury balance in London at the disposal of the Secretary of State, who arranges to finance the requirements of the High Commissioner as well. At one time the treasury balances in India were largely kept in Government treasuries and only a portion of these balances was kept with the Presidency Banks. This arrangement was not liked by the business community as it was apt to create stringency in the money market by withdrawing large funds from the public and locking them up in Government vaults during the busy trade season, thus forcing up the Bank rate and penalising business enterprise. Since, however, the institution of the Imperial Bank of India, the whole of the treasury balances (at places where

there are local head offices or branches of the Bank) have been made over to them and it is only at those places where there are no branches of the Imperial Bank that Government still keeps its cash in its district treasuries and sub-treasuries. The old Reserve treasuries at Bombay, Calcutta and Madras, where all the surplus funds were collected from the districts and which contained the major portion of the treasury balance in India, have also been abolished.

Prior to the institution of the Imperial Bank of India, the three Presidency Banks were paid, in addition to the payment made to the Bank of Bengal for public debt work, certain lump annual payments (Bank of Bengal Rs. 43,600, Bank of Bombay Rs. 12,240 and Bank of Madras Rs. 12,000) for the conduct of Government business at their head offices. No payment was made for Government business done at their branches. Since the formation of the Imperial Bank the rate payable for the management of the public debt has been continued,* but the amounts paid for the conduct of Government business have been held in abeyance for a period of three years (till January 1924) to enable Government to judge what financial adjustments, if any, should be made with the Imperial Bank under the new conditions† of its working.

* *Vide* the chapter on National Debt.

† The new conditions of working are that the Bank has undertaken to open 100 new branches within five years of its formation (in January 1921) and secondly, the entire Government balances have been made over to the new Bank without payment of interest. The Bank also has to conduct Government business at headquarters as well as all its branches.

The management of treasury balances in India is vested in the Controller of the Currency, who is directly subordinate to the Finance Department of the Government of India. In the performance of these duties he is assisted by Deputy Controllers of the Currency stationed at Calcutta, Bombay and Delhi—the work in Madras and Burma being conducted by the provincial Accountants-General as ex-officio Deputy Controllers of the Currency. The treasury balance kept in London is placed with the Bank of England and is managed by the Accountant-General, India Office, working under the orders of the Chairman of the Finance Committee of the India Office and the Secretary of State in Council.

Size of the treasury balance.—As in banking so in public finance it is considered the height of skill and business capacity to be able to manage with as low a cash balance as possible. The smaller the cash balance with which a government can work the greater the relief to the general tax-payer and to trade and commerce. A large cash balance must involve the imposition of taxation or the floatation of a loan, necessitating an annual payment from the treasury on account of interest. A large cash balance also means a great volume of money withdrawn from the money market and lying idle with Government, without earning any interest and thus prevented from employment in profitable channels in trade or commerce. The size of the Indian treasury balances has been in the past the subject of much discussion

and acute controversy. The question was investigated fully by the Chamberlain Finance and Currency Commission in 1913-14, who also were of the opinion that the treasury balances in years just previous to their enquiry were unusually large, due mainly, however, to accidental causes and to the exceptional prosperity of India in those years. To those accustomed to Western standards, it may at first sight appear that the treasury balance in India is kept unnecessarily high. But the following facts have to be borne in mind when considering the size of the treasury balance :—

(*i*) The total transactions of the Government. Taking all the receipts and disbursements in India and England, on account of the Central as well as the Provincial Governments it may roughly be stated that the average daily receipts of the Indian Government are about a crore of rupees, and that the average daily disbursements are a little over a crore. The opening balance for the year 1922-23* was about 39 crores, and the closing balance for the same year about 40 crores. It will thus appear that on an average the treasury balance provides for about 40 days' margin for the daily disbursements of the Government.

(*ii*) The problem of regulating the cash balances would be very much simplified and it would be pos-

* Figures for the year for England and India separately are as below

	England.	India.
	£	Rs.
Opening balance	8,993,606	25,66,13,000
Closing balance	9,818,448	25,96,26,000

[Figures taken from the Paper Currency Department Report for the year 1922-23 ; pages 50 and 55.]

sible to work with a very small cash balance indeed, if the revenue received were so distributed throughout the year that at no time did the disbursements exceed the receipts. The problem would be rendered easier if this ideal condition of things existed at each district treasury, that is to say, if each district treasury were a surplus treasury at all times and normally able to meet all demands thereon. In such a case practically no working balance would be required. But, unfortunately, this ideal state of things does not exist in India.

The receipts of revenue are very unevenly distributed throughout the year. The four months from January to April embrace a very heavy revenue period, during which, notwithstanding heavy payments of Council Bills in normal years, the treasury balances continuously increase; and during May and June the revenue is still good enough to maintain the high figure. But during the next five months and especially August, September and October, the revenue receipts fall far short of the demands on the treasuries and the balance runs down quickly, even when Government is receiving—as it usually does about this time every year, which also, fortunately, corresponds with the slack season in the money market—the proceeds of a loan. December is generally the month during which the balances are at their lowest point.

While there are these seasonal fluctuations in the collection of the revenue, expenditure proceeds

at a more or less even rate. It, therefore, frequently happens that during certain months of the year nearly all treasuries are more or less deficit. Moreover, there are several treasuries which even during the months of revenue collection spend more—chiefly on account of their being either military or railway construction centres, or centres for the construction of large public works, such as canals, buildings, etc.—than the revenue they collect and therefore these treasuries have to be provided with large working balances, at as convenient an opportunity and in as economical a manner as possible.

(*iii*) In India there is a special risk in working with a very low treasury balance. A failure on any day on the part of Government to meet its obligations at any treasury might aggravate a political crisis and is even otherwise open to grave political objection. On the 31st March 1921 the balances of Postal Savings Bank deposits amounted to Rs. 22 crores 86 lakhs, and that in Postal Cash Certificates to over 4 crores. These two together are alone greater than the opening and closing balances in India for the year 1922-23. The whole of this amount is payable on demand. In an acute financial or political crisis—as actually happened during the commencement of the Great War—withdrawals on a very large scale may be resorted to, but if it is known that the *Sircar* has got ample cash in its treasury such a movement is not likely to meet with any appreciable support or encouragement.

LOANS FROM TREASURY BALANCES.

It is not the practice in India for Government to grant short term loans at interest to approved borrowers from treasury balances. The Government of India has now, as already stated, made over practically the whole of its treasury balances to the Imperial Bank of India, without interest, and it leaves the Bank, subject to certain restrictions, to make use of those balances in the interests of trade and commerce. Under the agreement between the Bank and the Governor-General in Council, the latter is "entitled to issue instructions to the Bank in respect of any matter which in his opinion vitally affects his financial policy or the safety of the Government balances, and if the Controller of the Currency or such other officer of Government as may be nominated by the Governor-General in Council to be a Governor of the Central Board shall give notice in writing to the Managing Governors that he considers that any action proposed to be taken by the Bank will be detrimental to the Government as affecting the matters aforesaid, such action shall not be taken without the approval in writing of the Governor-General in Council." (Paper Currency Department Report for the year 1920-21, page 31, para. 29).

In England, however, the practice followed since 1838 has been to keep a certain part of the cash balance at the Bank of England—a minimum balance of £ 500,000 has to be maintained at the Bank, under

an old standing arrangement—and to lend the remainder of the free balance at interest for short periods to certain bankers, discount houses and stock brokers of high standing whose names are included in an approved list. The loans are granted as a rule for periods of 3 to 5 weeks, occasionally 6 weeks, so that the whole balance, if need arose, could be called within a very short time. In this manner the India Office balances bring in a small revenue to the Indian Treasury, which amounted to £ 228,340 during the year 1921-22.

Gold Standard Reserve Balances.

Previous history.—Prior to 1873 the rate of exchange between India and England was about two shillings to the rupee. During this period the price of silver was about 54*d.* per ounce, but from that year, owing to discoveries of various silver mines and the simultaneous demonetization of silver by various bimetallic countries, there began a heavy fall in the gold price of silver. Ordinarily, the price of a commodity is determined by two factors, namely, cost of production on the one hand and intensity of demand on the other. But in the case of silver the cost of production varies within very wide limits and the price is, therefore, governed in the main by demand alone. If the demand rises the price of silver rises and if the demand falls the price of silver falls, without any close relation to the cost of production of silver.

With the gradual coming of gold into favour and the abandonment of the bimetallic standard by several countries of the West, the demand for silver decreased very much and went on falling steadily till in 1887 it reached 44*d.* per ounce, when the rate of exchange between England and India dropped to 16·898*d.* per rupee. This downward tendency continued till in 1892-93 the price of silver dropped to $39\frac{13}{16}$*d.* per ounce and the rate of exchange to 14·985*d.* per rupee.

This continued fall in the price of silver caused grave embarrassment to the Government of India in the remittance of its Home charges, apart from the serious inconvenience and uncertainty it caused to English and Indian traders and to English businessmen generally, who had invested or wanted to invest capital in Indian undertakings. With each fall in the rate of exchange the Government of India had to provide a larger number of rupees to meet the Home charges. In 1892-93 the Government of India's loss by exchange, *viz.*, the amount paid in rupees in excess of what would have been required if the rupee had remained at its old value of 2 shillings, was Rs. 10,28,73,000.

A committee was accordingly appointed in 1893 by the Secretary of State under the presidency of Lord Herschell to advise as to the remedy to be applied in the circumstances. That Committee recommended that the mints should be closed to the free coinage of silver and that the sterling value of

the rupee should be fixed at 1*s*. 4*d*. at which the Secretary of State should sell Council Bills on India. These suggestions were adopted and since 1893 the currency of India has been a state-managed currency, the rupee being given a fictitious value, about 50 per cent. above its intrinsic or bullion value.

It was hoped that with the adoption of these measures exchange would keep steady at 1*s*. 4*d*., but the price of silver began falling again, till in 1898-99 it reached $26\frac{15}{16}d$. per ounce, and the rate of exchange fluctuated from 13·1*d*. in 1894-95 to 15·978*d*. in 1898-99. Another Committee to advise on Indian Exchange and Currency was appointed in 1898, known as the Fowler Committee. That Committee advised against the reopening of the Indian Mints to silver without an international agreement and suggested the continuance of the same rate of exchange, namely, 1*s*. 4*d*. But the Committee was of opinion that a Gold Reserve Fund should be formed which should be available for supporting exchange when the balance of trade went against India. It may be pointed out here that in normal times India exports more than she imports, and consequently the balance of trade is normally every year in her favour. The demand for remittances to India is thus normally much greater than the demand for remittances from India to other countries. It is only when, owing to bad agricultural conditions or unusual slackness of demand for her products in foreign countries, she is unable to export more than

she imports, that the balance of trade goes against her and the demand for remittances to India is less than the demand for remittances from India in payment of the imports she has received from foreign countries. To meet such extraordinary situations exchange needs artificial support and hence the recommendation made by the Fowler Committee for the formation of a Gold Reserve Fund to be used in support of exchange.

With regard to the manner of building up the Fund, the Committee made the following recommendation :—

"We also recommend that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance* of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances."

This recommendation was duly given effect to and the Fund was first started in the beginning of 1901 and has been kept ever since. Later on a silver branch of the Gold Reserve Fund was formed, when the name of the Fund was changed into the "Gold and Silver Reserve Fund." Finally, the Fund was given its present name, *viz.*, the Gold Standard Reserve. The silver branch of the Fund was abolished as a result of the recommendation made by the Chamberlain Commission in 1914.

* The reference is to what is known as the treasury balance.

Profit on rupee coinage.—As it may not be generally known how the profits on rupee coinage arise, a brief explanation will perhaps not be out of place. Under the Indian Coinage Act of 1906 the standard weight of the rupee piece is 180 grains troy. In this weight there are 165 grains of fine silver and the rest is alloy, necessary for minting purposes. For the coinage of silver at the mint a seigniorage or fee* is charged at the rate of 2 per cent. on the value in standard tolas of silver taken up for coinage. In addition, charges incurred in the shipment of silver and its landing and conveyance to the mint and other charges incidental to the purchase of silver, such as charges for the remittance of gold to England, etc., are charged against the rupee coinage account. In addition to these charges, there is, of course, the actual price paid for the purchase of silver itself.

It has been found by experience that taking all these charges together the cost of turning out rupees consists of the price of silver plus $2\frac{3}{4}$ per cent. of this price, to cover the aforesaid incidental charges.

With the weight of silver which the rupee contains, if the price of silver is 42*d.* per standard ounce, the cost of coining rupees to the Government is just over 16*d.*,† which is the rate of exchange fixed for the rupee. So that if the price of silver is below 42*d.* Government makes a profit, proportionate to

† This fee is credited to the head XXVIII Mint—Percentage chargeable on the coinage of new rupees.

To be exact, the cost of the rupee is 16·03 *d.* at this price of silver.

the drop in the price of silver and if the price of silver goes above 42*d.* Government incurs a loss, as it did a few years ago, in the coinage of rupees, which is also proportionate to the rise in the price of silver above 42*d.* and it then becomes profitable to melt the rupee and sell the silver it contains at its bullion value.

Location and Constitution of the Reserve.—The object of this Fund being the support of exchange during an adverse balance of trade, it has been decided to keep the reserve in England*. For, when exchange falls and the demand for remittances from India to England increases the Government of India has to sell "Reverse Councils", or sterling drafts on London in exchange for rupees paid in India. Such payments in England are then made by the Secretary of State from the Gold Standard Reserve. This Reserve is now held entirely in England in gold. Its composition on the 31st March 1923 was as follows :—

	£
Estimated value of the sterling securities† of the nominal value of £ 39,817,321	40,043,831
Cash at the Bank of England ..	3,658
Total ..	£ 40,047,489

* Indian commercial opinion is, however, in favour of the location of the Reserve in India.

† Details of investments are as below:—

		£
British Treasury Bills		30,955,000
Union of South Africa Bills	1923	700,000
5 p. c. National War Bonds	1924	3,606,000
5 ,, ,, ,, ,,	1925	500,000
5 ,, ,, ,, ,,	1928	725,000
5 ,, ,, ,, ,,	1929	75,000
5¾ ,, Exchequer Bonds	1925	2,250,000
5 ,, National War Loan Stock 1929–47		567,601
2¾ ,, Guaranteed Stock		438,720
Total nominal value ..		39,817,321

INTEREST ON THE BALANCE IN THE RESERVE.

It will appear from the above figures that only a small amount is held in cash and practically the whole of the remaining balance is invested in short-term gilt-edged securities, which, subject to market fluctuations, do not in the aggregate yield interest at more than $2\frac{1}{2}$ per cent.* This apparently low rate of interest is due to the necessity of keeping the balance in such a manner that it may be turned into cash at short notice and might be used in support of exchange. The interest on the Gold Standard Reserve balances used to be credited to the Reserve, but recently some diversions to other purposes have been made. These diversions are possible because Government have, unlike the Paper Currency Reserve, a free hand in dealing with this reserve, which is not regulated by any statute whatever.

In 1907 a sum of £ 1,123,655 was used from this reserve for capital outlay on railways on the recommendation of the Mackay Railway Finance Committee. During the years 1921-22 and 1922-23 excess balances† in the Reserve over £40 millions were applied to the reduction of created securities in the Paper Currency Reserve, in accordance with the promise given by Sir Malcolm Hailey, while introducing the Paper Currency Amendment

* *Vide* reply given by the Finance Member to a question asked in the Legislative Assembly on the 24th March 1923.

† From a reply given to a question in the Legislative Assembly on the 24th March 1923, it would appear that a sum of £ 2,109,071 was up to that date applied to the reduction of created securities.

Bill in the Indian Legislative Council in September 1920.

During the year 1923-24 the interest on the Gold Standard Reserve is to be credited for the first time to general revenues, instead of, as has been the case in the past, to the Reserve itself.

Paper Currency Reserve Balances.

These balances are quite apart from the treasury and Gold Standard Reserve balances respectively and are held under, and regulated by, statute to ensure the convertibility of paper currency into coin on demand.* The statute regulating the Paper Currency Reserve is the consolidating Act No. X of 1923, known as the Indian Paper Currency Act, 1923 †. Under the law there is no limit to the amount of issues of currency notes, but the whole amount at any time in circulation may not exceed the amount of the metallic reserve plus the securities of the Government of India or of Great Britain in the Paper Currency Reserve‡ and also should not exceed twice the amount of the metallic reserve §. There

* The paper currency reserve is also used for resource purposes to which a reference will be made in the next chapter.

† This Act has since been slightly amended in July 1923.

‡ It will be obvious from this description of the Reserve that currency notes cannot form a part of the Reserve. Currency notes are kept in Government treasuries as part of the treasury balance, and if put into a currency chest are treated as cancelled and out of circulation.

§ From the published account of the Paper Currency Reserve, it would appear that on the 30th September 1923 the percentage of metallic reserve to circulation was 67·94.

is also no statutory restriction at present * on the location of the reserve and it may be kept at such places and in such amounts at each place as may be found convenient, so long as the total amount of the Reserve remains unaffected. A branch of the Reserve is kept in London, the rest is kept in India at (*i*) the head offices of the various circles of issue, *viz.*, Bombay, Karachi, Lahore, Cawnpore, Madras, Calcutta and Rangoon; (*ii*) district treasuries; (*iii*) sub-treasuries; and (*iv*) branches of the Imperial Bank of India. The portion of the balance in district treasuries, sub-treasuries and branches of the Imperial Bank is kept in what are known as 'currency chests'. These chests are intended to facilitate the encashment of notes for the public and also the transfer of treasury surpluses to convenient centres, as will be explained in the next chapter. The currency chests at branches of the Imperial Bank are kept in the custody of the Bank, but the Bank is required to hold the currency balance entirely separate from its ordinary balance and not to withdraw any portion of it unless an opposite payment to the Currency Department at another place is arranged for at the same time.

* The force of the words 'at present' might perhaps be made clear to the reader. Section 18 (which deals with the permanent constitution and location of the Reserve) of the Paper Currency Act X of 1923 limits the amount of gold coin and bullion in London to Rs. 5 crores and the amount of Indian Government securities to Rs. 20 crores. This means that all gold coin or bullion forming part of the Currency Reserve in excess of 5 crores would have (at some future date) to be held in India and that as regards securities the excess over 20 crores would have to be held in England in the form of short-dated securities of the United Kingdom. This section at present is inoperative and would come into operation after "the appointed day" referred to in the Act.

Location and Constitution of the Paper Currency Reserve.

The statement in Appendix A to this chapter shows the location and constitution of the Reserve on the 31st March in each of the years, 1920, 1921, 1922 and 1923. In the portion invested in rupee securities there is a large number of 'created' securities in the shape of Treasury Bills issued by the Government of India. These were mainly issued in exchange for the sterling securities of the Reserve, which were used for the payment of Reverse Councils in London and also to supply the deficiency in the Reserve caused by the revaluation of the gold and sterling securities on the basis of £1=Rs. 10. Attempt is being steadily made each year to reduce such holdings as far as possible.

Loans from Currency Balances.

It had for a long time been represented to Government that the Indian note issue should be capable of expansion so as to meet the seasonal demand for additional currency which is normal in India. This question was considered by the Babington Smith Currency Committee of 1920 and certain recommendations were made by that body in their report. These recommendations have been embodied in section 20 of the Indian Paper Currency Act, which authorises the Controller of the Currency to issue currency notes to an amount not exceeding Rs. 12 crores against bills of exchange maturing

within 90 days from the date of such issue, subject to certain conditions to be prescribed from time to time by the Governor-General in Council. Such issues are now being made against *hundis* or internal bills of exchange for *bona fide* trade purposes. Such loans are admissible as soon as the bank rate rises to 6 per cent.; the maximum amount admissible is 4 crores when the bank rate is 6 per cent. and similar amounts are made available at 7 and 8 per cent. bank rates. The interest on these loans is payable at the bank rate, subject to the minimum of 6 per cent.

Interest on Investments in the Paper Currency Reserve.

It had been the practice for a long time past to credit the interest on the securities in the Reserve to general revenues (and not to the Reserve) and to this extent the profits on note circulation helped to ease the finances of the country. But under sub-section (7) of section 19 of the Paper Currency Act the interest on the securities in the Reserve is to be applied to the reduction of the 'created' securities in the Reserve (and not to be credited to general revenues) as long as the value of such securities exceeds Rs. 12 crores. This provision was inserted for the first time in the Amendment Act of 1920 and some portion of the interest was applied in this manner, but its operation has been suspended by successive Finance Acts, in view of the prevailing financial stringency.

APPENDIX A.

Balances in the Paper Currency Reserve in India and in England.

Date.	Total Notes in circulation.	Coin and Bullion.					In Rupees.	
		In India.			In England.	In transit.	Securities.	
		Silver coin.	Gold coin and bullion.	Silver bullion under coinage.	Gold coin and bullion.	Gold coin and bullion.	Held in India.	Held in England.
31st Mar. 1920.	1,74,52,45,960	33,21,91,696	(c) 44,36,53,445	6,63,25,959	*Nil*	(c) 3,44,71,947	(a) 19,58,54,946	(c) 67,27,47,967
31st Mar. 1921.	1,66,15,69,750	61,42,09,884	(d) 24,17,13,026	4,14,47,032	*Nil*	*Nil*	(b) 68,07,15,946	(d) 8,34,83,862
31st Mar. 1922.	1,74,76,47,252	72,96,22,264	(d) 24,31,91,937	4,55,67,211	*Nil*	*Nil*	(e) 65,07,93,571	(d) 5,84,72,269
31st Mar. 1923.	1,74,70,14,780	* 82,49,73,905	(d) 24,31,88,263	4,55,67,311	*Nil*	*Nil*	(f) 57,48,07,571	(d) 5,84,77,730

(a) Includes Rs. 10,09,00,000 Indian Treasury Bills. (b) Includes Rs. 61,26,00,000 Indian Treasury Bills.
(c) Converted at Rs. 15 per £ 1 or Re. 1 for 7·53344 grains of fine gold.
(d) Converted at Rs. 10 per £ 1 or Re. 1 for 11·30016 grains of fine gold.
(e) Includes Rs. 57,89,00,000 Indian Treasury Bills.
(f) Includes Rs. 49,65,00,000 Indian Treasury Bills.
* The increase in silver coin deserves to be noticed.

CHAPTER 10.

MOVEMENT OF FUNDS AND RESOURCE OPERATIONS.

Resource Forecast.—The control of the resource operations of the Government of India, which includes the provision of funds for the requirements of treasuries and sub-treasuries, is entrusted to the Controller of the Currency and the Deputies under him. Before the close of each month the Controller of the Currency submits to the Finance Department of the Government of India an estimate of the receipts and payments in India for the month about to close and of the two succeeding months. This estimate, which is technically known as the 'Resource Forecast', enables the Government of India to judge whether the ordinary receipts which are expected to come in during the following two months will be sufficient for the requirements of Government* both in India and in England or whether they will have to be supplemented by borrowing or otherwise. Questions of ways and means advances, sales of treasury bills, etc., are ordinarily decided on the basis of the resource forecasts.

To enable the Controller of the Currency to frame this forecast, each Deputy Controller of the

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* 'Government' here includes the Central as well as the provincial governments, in as much as the Central Government has the sole charge of the entire Government cash balances and also acts as banker for the provincial governments.

Currency submits to him about the 17th of each month an estimate of the transactions in his circle based on past actuals and on such other information as may be available in his office or obtained from treasury or departmental officers. It is open to the Deputy Controller of the Currency to require the treasury officers in his circle to furnish him at the beginning of each month with an estimate of the receipts and payments in their districts for that and two succeeding months.

Movement of funds.—The cash balances of the Government of India are made up of the total balance at the credit of Government with the Imperial Bank of India and the balances at treasuries and sub-treasuries situated at places where there are no branches of the Bank. At places where there is a local head office or a branch of the Imperial Bank, all Government receipts are paid into and all Government disbursements made from the local head office or branch of the Bank. The Bank is responsible for meeting the demands of Government, irrespective of the total receipts on Government account at the place where the demand has arisen, so long as the aggregate balance at the credit of Government at all the local head offices and branches is not overdrawn and is allowed to transfer funds from a local head office to a branch of the Bank and *vice versa* free of charge through the agency of the Currency Department. The Deputy Controller of the Currency arranges for transfers of funds between treasuries

and the bank and is also responsible for seeing that funds are not kept unnecessarily locked up at treasuries and sub-treasuries where there are no branches of the Imperial Bank.

Normal balances.—In January of each year the Deputy Controller of the Currency communicates to the treasury officers in his circle the cash balances to be held in the treasuries in each district during the next financial year for carrying on the ordinary work of the treasury. These balances are known as 'normal balances' and are fixed by the Deputy Controller on the basis of the actuals of the previous years. Treasury officers have to see that the actual cash balance of the district does not exceed the normal balance by any appreciable amount. The normal balances required for the sub-treasuries are fixed by the treasury officers concerned. The treasury officer has to report to the Deputy Controller of the Currency the total treasury balance in his district on the 7th, 14th, and 21st of each month. He has also to submit a monthly cash balance report on the 1st of each month giving full details by denominations of the cash balance held at head quarters and the sub-treasuries in his district at the close of the previous month. These reports enable the Deputy Controller of the Currency to see that funds are not kept at treasuries in excess of their actual requirements and if in any case the actual balance is found to exceed the normal balance by any appreciable amount, prompt steps are taken (with due regard

to facility and cost of remittance) to have the excess removed to a deficit treasury or to the local head office of the Imperial Bank of India.

The various methods used for movement of funds.—The object kept in view in arranging the necessary supply of funds to deficit treasuries is, as any business man would do, to avoid actual movements of cash, as far as possible. Of course, the crudest way of supplying funds is to send cash remittances by rail or road, whenever required. But this method is, as a rule, expensive and would be extremely inconvenient at times. The expedients usually resorted to with a view to avoiding actual cash remittances are as follows :—

For India.

(1) The opening of currency chests at treasuries and sub-treasuries ; and

(2) The grant of supply bills and telegraphic transfers, both from treasury as well as currency balances.

For the Home Treasury.

(1) By keeping a branch of the Paper Currency Reserve in London.

(2) By means of Council Bills and telegraphic transfers sold against treasury or currency balances in India.

Use of the Paper Currency Reserve for resource purposes.—Under the Paper Currency Act there is at present no restriction as to the place where the Paper Currency Reserve has to be kept. All that is

required is that the total reserve should not be allowed to fall below a certain amount. Such being the case, the operations of the Paper Currency Department are facilitated, economy of metallic currency promoted and unnecessary movements of coin avoided by the establishment at district treasuries and sub-treasuries of currency chests which contain a portion of the balance of the Paper Currency Reserve and which are quite distinct from the treasury chests or treasury balances and are required to be kept separately, in separate chests and the accounts of which are also outside the general treasury accounts. Into these currency chests are deposited the district surpluses when revenue is coming in and is in excess of the requirements of the district treasury in question. For all such deposits made by the district treasury into its currency chest a corresponding transfer in the opposite direction is made at provincial headquarters from the currency balance held at the Currency Office to the treasury balance kept with the head office of the Imperial Bank of India. It will thus be observed that to this extent the transfer to a currency chest at a district has exactly the same effect as if the revenue surplus of the district was remitted by rail to provincial headquarters. Moreover, it frequently happens that during the revenue season most of the district treasuries are surplus while several of them are deficit during the remainder of the year. The existence of these

currency chests enables Government to keep funds ready for the use of the treasury later on, thus avoiding the necessity of remitting funds during the deficit season to treasuries from which they were previously withdrawn when surplus during the revenue season. The district treasury is thus enabled to adhere to the normal balance prescribed for it for the respective months in each year without having frequently to remit funds to and fro and incurring heavy remittance charges. It will, of course, be obvious that where a district treasury is constantly and heavily deficit the establishment of a currency chest will not prevent for all time the necessity of making cash remittances and a time must come when an actual transfer of coin or notes to such a treasury must take place.

The branch of the Reserve held in London operates in exactly the same way and is used for the same purpose as a currency chest at a district treasury. It facilitates the resource operations of the Indian Government between India and England and enables the Secretary of State for India to place himself in funds when resort to other methods would be more expensive or inconvenient. For all payments to or from the Paper Currency Reserve in London by the Secretary of State, a corresponding payment in the opposite direction, namely, from or to the Paper Currency Reserve held in India, is made by the Government of India.

Use of trade requirements to facilitate resource operations of Government.—India is mainly an agri-

cultural country and its exports are largely of agricultural produce. The purchasers (or the exporters) when they cannot obtain coin or notes locally for payment to the cultivators have to transport them from central places or provincial headquarters to the agricultural districts. When the crop is good, export is brisk and there is a heavy demand for remittances to the agricultural centres. About the same time, the cultivator pays the revenue assessment due to the Government. Government treasuries are, therefore, surplus at this time and the surplus funds have to be withdrawn to provincial headquarters. The exporters of agricultural produce usually arrange for funds with banks at provincial headquarters and want them ready at the agricultural centres. They are, therefore, willing to pay a small premium for the necessary accommodation at the agricultural centres in return for payments made by them at provincial headquarters. Such accommodation is granted in the shape of drafts payable on presentation—known as 'supply bills'—or telegraphic transfers, for which a little higher rate is charged than for supply bills. In this way the requirements of Government as well as of trade are to a certain extent met. Supply bills and telegraphic transfers are now sold by Government only if there is no branch of the Imperial Bank of India at either of the places from or to which the remittance is to be made. If there are branches of the Imperial Bank at both places private remittances cannot be

made through Government agency. In these cases bills or transfers are sold to the public by the Imperial Bank of India at rates not exceeding those prescribed by the Controller of the Currency.

COUNCIL BILLS AND REVERSE COUNCILS.

The revenue of the Indian Government is received in rupees in India, whereas that Government has to incur heavy expenditure in England in sterling, and consequently some arrangement has to be made each year for remitting funds to London. The principal method of effecting remittances on Government account between India and London is by means of sales of Council Bills and telegraphic transfers on India by the Secretary of State in London. In ordinary times, as already stated in the preceding chapter, India exports more than she imports and consequently there is usually a balance of trade in favour of India which has to be cleared by means of actual remittances to India. The Secretary of State takes advantage of the above-mentioned requirements of trade to remit funds to India during the busy season and draws bills of exchange on India—known as Council Bills—for which he receives payment in sterling against rupees to be paid in India at a certain rate of exchange at Calcutta, Bombay, Karachi and Madras. In this manner he is enabled to draw funds from India for the requirements of the Indian Government in London.

When, however, owing to adverse agricultural conditions or other reasons, exports are dull and the

imports exceed the exports, the demand for remittances is in the other direction, namely, from India to England. When such a state of things occurs the Government of India sells, what are called, Reverse Councils, namely, bills of exchange on the Secretary of State in London, in which, in exchange for rupees received in India, it promises to pay sterling in London. This transaction, however, is purely in support of exchange and does not help the Secretary of State in getting the funds he requires in London.

Usually Council Bills as well as Reverse Councils are drawn against treasury balances, but sometimes such bills are drawn against the Paper Currency Reserve as well. When however there is a continued and heavy demand for reverse councils and it is not possible for the Secretary of State to meet the payments from his ordinary treasury balances or the Paper Currency Reserve it becomes necessary to draw upon the Gold Standard Reserve in England, a corresponding transfer being made to the Reserve in India either in rupees or in gold, which are obtained from the Currency Department in exchange for the notes received from the purchasers of the bills. When Council Bills are paid from treasury balances in India, the effect is that a part of the treasury balance is transferred from India to London. When Council Bills are paid from the Paper Currency Reserve in India, the result is a corresponding addition to the balance of the Reserve held in London.

When Reverse Councils are paid by the Secretary of State in London from the Paper Currency Reserve or from the Gold Standard Reserve the result is a reduction of the note circulation and contraction of the currency in India. As there is at present no branch of the Gold Standard Reserve in India Council Bills cannot be paid in India from that Reserve. When, however, the Government of India wish to transfer to London the profits on the coinage of silver to be added to the Gold Standard Reserve, they make payments of Council Bills out of the coinage profits, the Secretary of State crediting the receipts in sterling to the Gold Standard Reserve in London.

CHAPTER II.

Government Accounts.

Previous History.—The present system of accounts in India dates from the time of the direct assumption of responsibility for the administration of India by the Crown. During the days of the East India Company the accounts were kept on the mercantile system and were extremely confusing. The monthly, quarterly and annual accounts did not agree with each other and for this reason the accounts were never regularly published. Stock accounts were mixed with cash transactions, each department had a profit and loss account and there was an annual stock taking, not only of the money in the treasury and other claims but even of the value of the Government House, Calcutta and of Fort William and of the entire dead stock throughout the country. To Sir Charles Trevelyan is due the credit of reorganizing and remodelling the entire system of accounts, audit and budget in the country. At his suggestion the services of Mr. Foster, then Assistant Pay Master, and Mr. Whiffin, one of the Assistant Accountants General of the War Department, were placed in 1863 at the disposal of the Government of India by the Secretary of State, in order to assist in the investigation

of the system of account adopted in the Public Works Department. These gentlemen, after having completed the more immediate object of their mission, were employed by the Governor-General in Council to examine the general system of Indian accounts and they submitted reports upon those connected with military expenditure and upon the mode of conducting business in the department of accounts. With their assistance the whole system of Indian accounts was remodelled, and modifications were effected in the budget forms which had previously been introduced by Mr. Wilson on the plan adopted in England. The system of account, as it obtains at present, was introduced under Finance Department Resolution No. 2189, dated 20th April 1865. Alterations therein to meet changed conditions were made from time to time, but, in its main outlines, the system introduced more than half a century ago remained practically the same. The introduction of the Montagu-Chelmsford reforms led to a radical change in the financial relations between the Central and Provincial Governments and consequently a complete separation of Central and Provincial accounts became inevitable. In their Resolution No. 3183-F., Government of India, Finance Department, dated the 16th December 1920, the Government of India, with the sanction of the Secretary of State, published for general information the changes introduced in the system of accounts. The system now in vogue is in the main

the system of 1865, as modified by the Resolution of December 1920.

General Outlines of the System.

The following are in brief the general outlines* of the system of accounts of the Government of India :—

All receipts† on behalf of Government are paid into a treasury or the Bank. Except as provided for below, the initial accounts of such receipts are maintained at the treasury. Receipts realised in the Railway, Military, Marine, Posts and Telegraphs, Public Works and Forest Departments, as well as in the Mint, are paid into a treasury or the Bank in lump and are accounted for at the treasury merely as receipts on behalf of such departments. The detailed accounts of such receipts are kept by departmental officers concerned.

* Taken from the Account Code, 1st edition, 1922, issued by the Auditor-General in India.

† The rules require that all the money received by an officer of Government in his official capacity must be lodged in full in the Government treasury or the Imperial Bank of India, to be credited to the appropriate account and made part of the general treasury balance. The appropriation of departmental receipts to departmental expenditure, except when specially authorised, is strictly prohibited. From this it will appear that the accounts show gross revenue and gross expenditure and not net transactions. In the case of refunds of revenue, however, and a few other cases a minus entry is made and such transactions are shown as deductions from revenue. The same remarks apply to commercial departments, such as railways, irrigation, posts and telegraphs. In these cases working expenses are deducted from gross earnings and only the net revenue is shown on the receipt side in the estimates and accounts. This is done in order to avoid an inflation of the accounts and the resultant erroneous impression as to the incidence of revenue in India. But, otherwise, the general rule holds good that revenue and expenditure should be treated separately and shown gross on separate sides of the account. This is also necessary for purposes of budget control. For, if officers were permitted to use departmental receipts in aid of their expenditure they would to that extent be spending more than the amount appropriated by the Legislature (or the Executive) for their use and thus defeat the entire scheme of the budget.

All payments on behalf of Government are made either at a treasury or the Bank; or, sums are withdrawn in lump, from a treasury or the Bank, by some departmental officer for making payments. In the former case the initial accounts of payments are kept at the treasury. In the latter case such accounts are maintained by the departmental officer concerned.

The treasury officers as well as the departmental officers referred to above render the accounts of their transactions to their respective Audit officers.‡

Accounts received from treasuries and departmental officers are classified§ in the Audit office and abstracted under the appropriate heads of accounts classification. Some departmental officers are, however, required to render compiled accounts with suitable abstracts of their transactions classified under heads of account. In such cases, the accuracy of these abstracts is checked in the Audit office.

Transactions in one Audit Circle which affect the accounts of another Audit Circle are passed on, month by month, to such circle for adjustment.

The classified abstracts together with transactions passed on for adjustment by other Audit Circles

‡ This is done in India as audit officers are also responsible for the compilation of accounts, which is not the case in England. The question of the separation of audit and accounts is at present under consideration. It has been recommended by the Inchcape Committee. In the early eighties the question was considered by the Government of India at the suggestion of the Secretary of State and again by the Welby Commission, but the decision on each occasion was unfavourable to the proposal.

§ The accounts are first audited and then compiled. Government audit is thus a continuous audit and not a periodical audit as in the case of commercial audit.

are consolidated, month by month, into one account for the whole Audit Circle.

Each Audit officer simultaneously works out the progressive figures during the year, of the accounts of his Audit Circle. On closing the accounts of March (Final) the account of the Audit Circle for transactions of the whole year, is submitted by each Audit officer to the Auditor-General.

The Auditor-General consolidates the annual accounts of all Audit officers in India, as well as the accounts of Home transactions on behalf of Government of India which are finally booked against respective heads of account in the Home accounts, into one annual account for the whole country. This account is presented by the Secretary of State, under section 26 of the Government of India Act to both the Houses of Parliament and is called the "Finance and Revenue Accounts of the Government of India."

Duties and powers of the Auditor-General as regards accounts.—In as much as the duty of supplying the accounts to the Houses of Parliament is laid upon the Secretary of State in Council, he is the final authority as to the form in which they should be prepared and no change affecting the form of the Finance and Revenue Accounts can be made without the previous sanction of the Secretary of State in Council. Under Rule 18 of the Auditor-General's Rules, the Auditor-General is required to prepare these accounts and is empowered to call upon any Government servant to furnish any information required for the completion of these

accounts. The forms in which the accounts are kept in Audit offices are prescribed by the Auditor-General (Rule 19). The Auditor-General also determines the forms in which Treasury Officers as well as other officers who render accounts to the Audit Department should render such accounts and in which the initial accounts from which the accounts so rendered are compiled or on which they are based should be maintained (Rule 22). The Auditor-General also decides doubts or disputes as regards the classification of items under major or minor heads of accounts (Rule 20). But with regards to the classification of items into (*i*) Central and provincial, (*ii*) reserved and transferred, (*iii*) votable and non-votable, separate statutory provision has been made. As regards (*i*), the final decision rests with the Governor-General in Council, under Devolution Rule 4; as regards (*ii*), with the Governor of the province, under Devolution Rule 7; as regards (*iii*), with the Governor-General for central items under section 67A (4) of the Government of India Act; and with the Governor of the province for provincial items, under section 72D (4) of the Government of India Act.

HEADS OF ACCOUNT.

A list of the major heads of account of revenue and expenditure is reproduced in Appendix 12. Government transactions fall under the following categories :—

(1) Revenue heads.

(2) Expenditure heads:—
(*a*) charged to revenue;
(*b*) not charged to revenue.
(3) Debt heads.
(4) Remittance heads.

Head (1) is fairly clear and needs no explanation. The distinction between 2 (*a*) and 2 (*b*) has been brought out in the chapter on irrigation finance in connection with capital expenditure on irrigation works.

Heads (1) and (2) (*a*) are the heads which are taken into account in calculating surpluses or deficits.

Head (3)—Amounts received and paid on account of debt, deposits and advances and remittance heads are not spoken of as 'revenue' and 'expenditure' but as 'receipts' and 'disbursements.' Under the debt heads are included all receipts and payments in respect of which Government becomes liable to repay the moneys received or has claim to recover the amount paid, such as receipts and disbursements on account of loans, savings banks, departmental and judicial deposits, loan funds and advances made by the Central or the Provincial Governments, etc., etc.

Head (4): Under the head 'Remittances' are included receipts and payments arising out of money order transactions, Council bills, purchase of silver for coinage, etc. Transfer adjustments between the various Audit Circles are also recorded under this head.

The various account heads are divided into what are called 'sections' and each 'section' is given a letter of the alphabet, such as A, B, C, D, etc. This

letter remains the same whether the transaction relates to receipts or to payments under that head. Under each section there are various 'major' heads. Each major head is referred to in ordinary language as a separate head of account and under each major head there are what are called 'minor' heads, and similarly under each minor head there are several 'detailed' heads.

In order to show in one place the entire transactions relating to the commercial services, such as railways, posts and telegraphs, irrigation, etc., and to facilitate referencing the sections dealing with the capital transactions of the 'commercial' departments are indicated by duplication of the letter which distinguishes the corresponding revenue section. For instance, the section 'Railways' is provided with the letter 'B' to include the railway revenue account heads. The railway capital account heads are included in the section 'BB' and similarly for the Posts and Telegraphs, the Irrigation and the Buildings and Roads sections.

In numbering the heads of revenue and expenditure, Roman numerals are chosen for revenue heads and Arabic numbers for expenditure heads. Thus I Customs is understood to mean the revenue head, 1 Customs to mean the expenditure head, and similarly for the other heads of revenue and expenditure. No numbering is adopted for debt and remittance heads, though these also are arranged in sections.

In accordance with the classification of subjects into Central, Reserved and Transferred and of these into voted and non-voted, it has been found necessary to adopt (for the purposes of appropriation accounts and budget control) a similar division in the accounts. On the revenue side, the only discrimination made is between central and provincial items, there being no division into voted and non-voted (as there are no votes taken on the revenue estimates) nor into reserved and transferred (because of the joint purse). As regards the expenditure heads, separate detailed heads are provided in the order named for each of the following subdivisions, wherever necessary :—

Central	..	Non-voted. Voted.
Provincial	..	RESERVED. Non-voted. Voted. TRANSFERRED. Non-voted. Voted.

The classification of subjects under the Devolution Rules has introduced a further complication in the classification of accounts, due to the fact that political and administrative considerations chiefly govern the subject classification. It is thus not always the case that entire heads of account are Central or Provincial or that they are completely Reserved or Transferred. This point will be dealt with again in the chapter on financial relations

in the section relating to provincial finance. In their despatch No. 372, dated the 5th August 1920, the Government of India considered the question whether it was possible to frame major heads so as to conform closely to the division of subjects into central, provincial reserved and provincial transferred; in other words, in such a way that no major head should include expenditure relating to more than one of these classes of subjects. They dismissed it as impracticable and unnecessary, for the following reasons:—

"In the first place, it involves the duplication, if not triplication, of many heads of account; for example, we should have three major heads recording outlay on education, one dealing with central, one with provincial reserved and third with provincial transferred expenditure. Secondly, it is essential that our list of major heads should have some degree of finality, and this would not be possible if the above suggestion were adopted. Even at the outset a few subjects may be transferred in one province and reserved in another, while in excluded backward tracts some subjects may be reserved which in other parts of the same province are transferred . . . . Again it is an essential part of the Reforms scheme that there shall be a progressive increase in the number of transferred at the expense of reserved subjects, and there may be a similar expansion of provincial at the expense of central subjects. All these factors would tend to make our list of major heads liable to constant change if the suggested system were adopted. Thirdly, under the joint purse system, the revenues will not be distributed between the two parts of Provincial Governments. There can therefore be no division of revenue heads into reserved and transferred, and there is little advantage in adopting a different basis of classification for the expenditure heads alone. Finally,

no practical inconvenience would result if the above suggestion were not adopted, because provincial budgets will be so drawn up that individual demands for grants will, whenever feasible, include provision for transferred or reserved subjects only, and these classes of expenditure will ordinarily be dealt with separately for the purpose of control against grants and the appropriation reports."

Principles of Accounts Classification.

There are two ways in which items may be classified in the public accounts. The classification may be subjective or objective. In the first case the accounts show the receipts or disbursements of particular departments. In the second case the accounts show the object of the revenue or expenditure, irrespective of the fact that that revenue has been realised by, or the expenditure incurred in, other departments. For instance, under the subjective scheme of classification, the expenditure recorded under the head 'education' is only so much of the total educational expenditure as is incurred under the control of the Education Department. It does not include expenditure on the construction of schools and colleges, which is controlled by the Public Works Department or the expenditure on stationery which is controlled by the Superintendent of Stationery, or the expenditure on superannuation allowances and pensions* of the officials of the Education Department. If accounts were classified so as to show the true

* In the case of commercial departments pensionary charges are debited not to the general head 45—Superannuation Allowances and Pensions, but to the respective departmental account heads.

object of the revenue or the expenditure, the expenditure under 'education' would show all expenditure for educational purposes, whether incurred by the Education Department, or the Public Works Department or any other department of the administration.

For purposes of accounts classification in India, the departments of Government may be roughly considered under two heads, *viz.*, Public Service Departments and Quasi-commercial Departments. Public Service Departments are departments constituted for the discharge of those functions which either (*a*) are inseparable from, and form part of, the idea of Government, or (*b*) are necessary to, and form part of, the general conduct of business. As instances of such departments might be mentioned, Police, Army, Public Works Department, Jails, Printing and Stationery, etc.

Quasi-commercial departments are those departments which are maintained for the purpose of rendering particular services on payment made for the services rendered or for the articles supplied. Their functions are not part of the ordinary idea of Government or administration. As instances of such departments might be mentioned, Railways, Posts and Telegraphs, Forests, etc.

Broadly speaking, the scheme of classification adopted in India for the public service departments is subjective and for the quasi-commercial departments objective. In the case of the former their cost

is shown in the public accounts as the cost of the service as a whole and without reference to the details of service rendered. In the case of the latter, revenue creditable and expenditure chargeable to such departments (even though incurred by other departments on their account) is generally credited or debited to them in the accounts. This description applies to the accounts as a whole. Between any two Governments, however, the basis of incidence is objective, irrespective of the fact that the expenditure incurred or the receipt realised is in a public service or a quasi-commercial department. Each Government bears its own charges and is credited with its own receipts.

For the purpose of bringing out the true object of expenditure, some progress towards cost accounting has been made in the military department as well as in the accounts of several government commercial and quasi-commercial concerns. The accounts of the Postal and Telegraph Departments are being placed upon a cost account basis. The claim made for the new system is that, for purposes of financial control, it is far more effective than the existing system. As Sir Henry Gibson, the late Comptroller and Auditor-General in England, said in his evidence before a sub-committee of the Select Committee of the House of Commons on national expenditure (1918):—"If you wish to establish financial control it can be better effected by the objective rather than the subjective scheme.

I have always felt that the subjective classification, though very simple and convenient, did not lend itself to establishing a unit of cost by which you could control and compare the cost of one service with another."

Exchange and Unit of Currency.

The accounts are now kept, as is only proper, on a rupee basis. But as the Home transactions of the Government of India, which are fairly considerable and of a varied character, are in sterling their incorporation in the Indian accounts always presents some difficulty, and particularly during the last few years, when the sterling value of the rupee was subjected to fluctuations within very wide limits. The estimates are now prepared on the basis of 10 rupees to the pound sterling and the difference between this rate and the rate of rupees fifteen to the pound is shown as 'exchange' under each major head. But as the actual rate of exchange is never the same throughout the year, the accounts cannot be kept on this artificial basis. The practice, therefore, is that the Home transactions of the Government of India are brought to account in India at the rate of 2*s.* to the rupee and the difference between this rate and the actual rate (which is calculated monthly on the basis of the average of the daily Calcutta telegraphic transfer rates on London during the month) is adjusted as 'exchange' under each major head. There is now no separate major head in the accounts to show gain or loss by exchange

as compared with the official rate. Each head of revenue or expenditure includes the adjustment necessary for exchange on account of Home transactions.

ACCOUNTS OF PROVINCIAL GOVERNMENTS.

The general accounts maintained in the offices of the provincial Accountants-General are joint accounts of both the central and provincial transactions. The distribution of the entire revenue and expenditure between the two Governments is worked out in a separate statement, *vide* Appendix 12. This statement brings out the total expenditure under—

(1) Central: Non-voted, voted, Total.

(2) Provincial: Reserved: Non-voted, voted, Total.

(3) Provincial: Transferred: Non-voted, voted, Total.

(4) Total provincial.

As regards revenue, the statement exhibits the figures under three columns only, *viz.*, Central, Provincial and Total.

From the statement referred to above a monthly *pro forma* account of its transactions and balances is prepared by each Accountant-General for the provincial government. This account includes transactions (in England and India) under revenue and service heads, as well as under capital and debt heads. The form of the account is determined by

each provincial government, but it is usually in the form reproduced in Appendix 13.

The question of the control exercised by local governments over accounts will be dealt with in a separate chapter in the section relating to provincial finance.

CHAPTER 12.

AUDIT OF ACCOUNTS.

Audit as an agency of financial control.— "The only way to ensure honest and sound finance is to subject the expenditure to the search-light of independent audit," said Sir Guy Fleetwood Wilson in a minute, dated the 4th February 1913. It is in the spirit of these remarks that this chapter is written. It is meant to deal with audit as an agency of financial control and consequently technical detail which is found in departmental codes and manuals is not reproduced here.

Financial control is essentially based upon a distrust of human nature: upon the fact grounded on long experience that men are apt to be more generous with other people's money than with their own. It is as a curb upon this natural tendency that rules and regulations are framed and directions issued, both by the Legislature (as the representative of the general tax-payer) and by the Executive Government (as responsible to the Legislature for financial propriety, and carrying out its behests). To enforce these rules and regulations and bring their breaches to the notice of competent authority it is necessary to have some agency and this is the sole justification for the existence of the Audit Department. The position of an audit officer is

akin to that of a judicial officer. He has to apply the financial rules strictly and rigidly to all cases. It does not lie with him to relax or waive the rule (except where he is specially empowered to do so) or to question the motives or the intentions of the authority which framed those rules. And just as the law is no respecter of persons, so the auditor has to apply the rules, whatever they be, irrespective of the position of the person against whom they are enforced. It will thus be apparent how difficult and delicate at times the position of the audit officer might become and how grave is the responsibility which he has to bear, both to the Legislature and the Executive Government.

It will conduce to clearness of thought if we take up separately the audit of expenditure from Indian revenues in England and in India respectively, as there is separate statutory provision in each case and the two systems are not alike. We will take up audit applied in India first.

AUDIT IN INDIA.

Organisation of the Audit Department.—Audit in India is nowadays governed by rules framed by the Secretary of State in Council under section 96D (1) of the Government of India Act, which are known as the Auditor-General's Rules.* Before considering these rules under their appropriate heads, it seems necessary to refer briefly to the organisation of the audit department in India.

* These rules are reproduced as Appendix 1 to the Audit Code, issued by authority of the Auditor-General in India.

There are four main divisions of Government audit work in India, namely :—

(*i*) Civil (including public works);

(*ii*) Military;

(*iii*) Railways; and

(*iv*) Posts and Telegraphs.

So far as the Civil, the Railway and Post and Telegraph audit offices are concerned, the Auditor-General is the administrative* as well as the audit head, but with regard to the military audit offices he exercises no administrative powers. The Auditor-General is the final audit authority in India in the military as well as in the other three branches of audit work.

In charge of each civil audit office in a Governor's province there is an Accountant-General, except in Assam, where there is a Comptroller. There is also an Accountant-General, Central Revenues, who audits the expenditure of the Central Government, of the minor administrations such as Coorg and Ajmer-Merwara and of the treasuries under the Foreign Department of the Government of India. The Accountants-General, so far as their audit duties are concerned, are responsible to the Auditor-General and to him alone. This remark applies to the Accountants-General, Railways and Posts and Telegraphs as well.

Railway audit is in charge of the Accountant-General, Railways, who has under him the heads of

* The administrative powers of the Auditor-General, other than those conferred upon him by statute, are subject to the control of the Finance Department of the Government of India.

audit offices attached to the three State Railways at present managed by the State, *viz.*, the North-Western Railway, the Eastern Bengal Railway and the Oudh Rohilkhand Railway. On lines worked by companies, audit is carried out by the officers of the Company concerned, with Government Examiners of Accounts—under the orders of the Accountant-General, Railways—attached to them, whose duties have already been referred to in the chapter on 'Railway Finance.' The Accountant-General, Railways, supervises the work of Government Examiners and Chief Auditors of state-managed lines. He is also responsible, on behalf of the Auditor-General. for the pre-audit of all sanctions, affecting railway receipts and expenditure, issued by the Government of India in the Railway and Finance Departments.

Postal and Telegraph Audit is in charge of the Accountant-General, Posts and Telegraphs, under whom there are four postal audit offices in charge of Deputy Accountants-General, *viz.*, at Calcutta, Nagpur, Delhi and Madras, and two telegraph audit offices at Calcutta, one for the audit of telegraph expenditure and the other for the audit of telegraph receipts.

Military audit is under the Military Accountant-General, who is directly under the Finance Department of the Government of India. In audit matters, however, the Military Accountant-General is guided by the decisions of the Auditor-General.

The independence of audit officers in India in relation to the authorities whose transactions they audit is fully secured by removing them from the administrative control of the latter and placing the final responsibility for the settlement of audit objections in India on the Auditor-General. Detailed reference to this has been made in the portion relating to provincial finance as well as in the chapter on 'Enforcing Accountability.' As also no man can be a judge in his own cause it has been further provided in the rules that sanctions to expenditure accorded by the Auditor-General shall be audited by an officer* (to be selected by the Governor-General in Council), who is 'unconnected with the audit departments in India.'

Scope of Audit.

It will be best to consider the work of the Audit Department in relation to three main heads :—

(*i*) Audit of receipts;
(*ii*) Audit of stores and stock; and
(*iii*) Audit of expenditure.

Audit of Receipts.

Audit in India is applied in the main to expenditure. It is only in the Railways, Posts and Telegraphs, Customs and the Public Works Department† that receipts are systematically audited by the officers

* At present the Deputy Secretary to the Government of India in the Finance Department is the Auditor of Auditor-General's sanctions to expenditure.

† Only such receipts as are realised by the officers of the Public Works Department are subjected to audit. Irrigation water rates, which form the bulk of the Public Works receipts, are collected by the Civil Department and are not audited by the Audit Department.

of the Indian Audit and Accounts Service. In regard to other departments, the audit of receipts is mainly carried out by departmental officers.

Under Rule 12 (*i*) of the Auditor-General's Rules, the Auditor-General has to arrange for the audit of the accounts of the receipts of revenue of any Government Department, if so required by the Governor-General in Council, not otherwise. This provision is intended to cover existing practice in the departments mentioned above.

In England also the practice with regard to audit of receipts by the Comptroller and Auditor-General was, until recently, not very much different. Such accounts were test-audited on behalf of the Treasury. The Exchequer and Audit Departments Act, 1921, however, changed this practice and converted the audit of receipts also to one conducted on behalf of the House of Commons. Section 2 of this Act enacts as follows :—

"(1) The accounts of the receipt of revenue by the Departments of Customs and Excise, Inland Revenue, and Post Office, and the accounts of every receiver of money which is by law payable into the Exchequer, shall be examined by the Comptroller and Auditor-General on behalf of the House of Commons in order to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and the Comptroller and Auditor-General shall satisfy himself that any such regulations and procedure are being duly carried out.

(2) The Comptroller and Auditor-General shall make such examination as he thinks fit with respect to the correctness of the sums brought to account in respect of such revenue as

aforesaid, and shall, together with his report on the appropriation accounts of the departments concerned, present to the House of Commons a report on the results of any such examination."

It will thus appear that English practice in respect of audit of receipts is now in advance of the practice in India.

All audit of receipts divides itself into the two functions of (*a*) seeing that all sums due are received or checked against demand, and (*b*) seeing that all sums received are brought to credit in the accounts. As regards (*a*), audit in India plays an extremely limited part in ensuring that Government receives the sums of money due to it, that is, in protecting Government against fraudulent or inadvertent omissions to realise its cash dues. This task is in the main left to the revenue collecting authorities, with the exception of departments like Railways, Posts and Telegraphs, etc.

As regards (*b*), audit cannot obviously collect the receipts given for all payments into a treasury, for these must remain with the payers as proof of their payments and to protect them against a second demand. If such receipts could be collected audit would be in a much stronger position. These receipts would play the same part which vouchers do in relation to audit of expenditure. But what cannot be cured must be endured. In these circumstances a somewhat indirect remedy has been devised. Audit sends all the large civil revenue paying departments (such as land revenue, stamps, excise, etc.) monthly returns of amounts credited on their

account in the treasury accounts. These they compare with their own records and differences brought to notice are settled. In this way errors or frauds on the part of the revenue or the treasury staff are prevented and corrected.

Audit of Stores and Stock.

The Audit Department at present audits the stock accounts of the Public Works Department, of the Railways and of the Telegraph Department. Provision is made for such audit under Rule 12 (*ii*) of the Auditor-General's Rules. In England the Comptroller and Auditor-General, under section 4 of the Exchequer and Audit Departments Act of 1921, undertakes on behalf of the House of Commons, an examination of stock and stores accounts and reports to the House the results of such examination. Such reports come up for consideration by the Public Accounts Committee. In India such is not the case, except in the case of the departments referred to above. It will appear, therefore, that in this respect also Indian practice is not on so comprehensive a scale as the English one.

The following points require special attention in the audit of stores:—

(1) That every article purchased or otherwise obtained for store is entered as a receipt in the store account.

(2) That the store-keeper holds a proper quittance for every article shown in the store account as issued.

(3) That the store-keeper can produce the articles shown in the store accounts as the balance in his possession.

(4) That the rates paid agree with those shown in any contract or agreement that may have been entered into for the supply of the stores.

(5) That there is proper sanction for the purchase.

AUDIT OF EXPENDITURE.

The audit of expenditure in India generally follows the lines adopted in England. The subject may be considered under the following heads:—

Audit and scrutiny of rules and orders.—All financial rules and orders affecting expenditure and other transactions subjected to audit, which are issued by the Secretary of State or by any authority in India, whether under the provisions of any statutory rule or otherwise, have to be scrutinised before the audit of the transactions which they govern, can be conducted against them. This is obviously necessary, for if a standard of weight or measurement itself possesses any flaw, it will impart that flaw to every thing which it weighs or measures. It is usually found convenient to consult the Audit Officer before the issue of such orders and this is what is generally done in India, both by local governments as well as the Government of India and the heads of departments under them, especially in doubtful cases.

The most important rules governing expenditure in India are the following:—

(*i*) Audit Resolutions issued by the Secretary of State in Council promulgating rules for

(*a*) expenditure by the Government of India on subjects other than provincial;

(*b*) expenditure by local governments on provincial (reserved) subjects.

(*ii*) Statutory rules governing expenditure on transferred subjects.

(*iii*) Rules issued by the Governor-General in Council for expenditure (*a*) by local governments on agency subjects, (*b*) by the minor local governments under the direct administration of the Central Government; (*c*) by the various departments of the Government of India, and (*d*) by certain heads of departments under the Central Government.

Audit of grants and appropriations.—As it is a fundamental condition of incurring expenditure that provision therefor must have been already made in the estimates, the audit officer has to see—

(1) in the case of votable expenditure that the grant is covered by the vote of the Legislature, or orders issued under section 67A (7) or (8) of the Government of India Act, for central subjects, or under section 72D (2) (*a*) or (*b*) of the same Act for provincial subjects;

(2) in the case of non-votable expenditure, that the grant has been sanctioned by the Executive Government.

Objects of audit of expenditure.—The main objects* of audit of expenditure are to ensure—

(*a*) that the expenditure† has been incurred by an officer competent to incur it;

(*b*) that the expenditure has received the sanction, either special or general, of the authority competent to sanction it;

(*c*) that, if it is votable expenditure, it is covered by an appropriation from a grant sanctioned by the Legislature, by reappropriation within such a grant, or by a supplementary grant sanctioned by the Legislature;

(*d*) that, if it is non-votable expenditure, there is provision of funds, sanctioned by a competent authority, to cover it;

(*e*) that payment has, as a fact, been made, and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible;

(*f*) that the charge is classified under the correct head of account, and

(*g*) that the expenditure does not involve a breach of the canons of financial propriety.

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* Taken from Article 130, Audit Code.

† Generally, audit is applied *after* the expenditure has been incurred, but in certain cases there is what is called pre-audit of expenditure, or, in other words, claims are audited before the payment is made. Pre-audit is the rule for payments at provincial headquarters where audit offices are located, in railway open line expenditure, etc. But the major portion of the expenditure is post-audited.

The canons of financial propriety.—The canons referred to above are the following:—

(1) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

(2) Money borrowed on the security of allocated revenues should be expended on those objects only for which, as provided by rules made under the Act, money may be so borrowed.

If the money is utilised on works which are not productive arrangements should be made for the amortization of the debt.

(3) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

(4) Government revenues should not be utilised for the benefit of a particular person or section of the community, unless—

(*i*) the amount of expenditure involved is insignificant, or

(*ii*) a claim for the amount could be enforced in a court of law, or

(*iii*) the expenditure is in pursuance of a recognised policy or custom.

(5) No authority should sanction any expenditure which is likely to involve at a later date expenditure beyond its own powers of sanction.

(6) The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that the allowances are not on the whole sources of profit to the recipients.

Relation of Audit to Administration.

The question frequently asked is—and a very legitimate question too it is from the point of view of the layman and the general tax-payer—whether audit rules and regulations serve any practical purpose, *viz.*, whether they conduce to economy in the spending of public money. Such a question can only be answered properly when we grasp the true relation of audit to administration. No spring can rise higher than its source and it would be just as correct to accuse audit of inability to check extravagance in expenditure, as it would be to accuse a judicial officer of inability to prevent breaches of the peace. Audit is meant primarily to secure regularity in expenditure, to see that financial rules and orders are properly carried out and that public departments do not incur expenditure contrary to the expressed intentions of the Executive Government or the Legislature. Beyond that it does not and cannot go. Economy, in most cases, is dependent on knowledge of facts and the Audit Department is not in direct touch with facts. "The Public Works or Railway Engineer counts coolies and records their numbers; he measures construction works and enters the figure in a note-book; the Civil or

Military officer musters and enumerates the establishments, corps, etc., he has under him, and prepares and signs a paybill for them; he signs or countersigns a travelling allowance bill for himself and others founded on special or general knowledge that the journeys claimed have actually been performed, he submits a claim for contingencies or supplies after seeing personally (or through others) that the articles charged for are required for the public service and have actually been purchased and brought into public use: the Collector counts cash or stamps or opium in his treasury and thus proves his accounts for the month, etc. At these points the accounts spring direct from the facts; at these points they obtain whatever vitality and reality they possess; their accordance with the facts, through all their subsequent changes of form, depends on their truth at these points. Generally speaking, in India, audit does not come in here at all; the executive and administrative disbursing officers alone verify the initial record with fact; the accordance of the initial record with fact is finally accepted by audit on their statement and responsibility." (Introduction to Indian Government Audit, 1923, paragraph 23.)

There is, however, an intermediate field where audit can come to the assistance of the administration and make its contribution, however slight, to the cause of economy. In England, the bringing to light of waste and extravagance is now an

accepted part of the duties and functions of the Comptroller and Auditor-General; and since the introduction of the Reforms great stress is laid on this part of audit work in this country also. Paragraph 149 of the Audit Code is emphatic on the point:— "It is not sufficient to see that sundry rules or orders of competent authority have been observed. It is of greater importance to see that the general principles of legitimate finance are borne in mind not only by disbursing officers but also by sanctioning authorities, and that audit is conducted so as not merely to criticise their acts, but also to assist them, and consequently the Legislature, in protecting the interests of the tax-payer, developing revenue and effecting economies in expenditure wherever possible."

It still, however, remains true that the duty of seeing that economy in expenditure is being observed rests primarily with the administrative officer, and somewhat less directly with the Finance Department. It is recognised that it is difficult in all such cases to draw a distinction between questions bearing directly on audit matters and those which may trench on administrative functions and that nothing should be done which might impair the responsibility of administrative officers. But none the less cases do arise in which audit officers in India intervene in the interests of economy. Reference to important cases of this kind will be found in the Audit Reports presented to the Public Accounts Committees, central and provincial, every year.

AUDIT OF THE HOME ACCOUNTS.

When the Government of India Act, 1858, transferred the administration of India from the East India Company to the Crown, provision was made for an independent audit in London of the Home accounts of the Government of India. That provision is contained in section 27 of the Government of India Act, the main clauses of which are to the following effect :—

(*i*) The auditor is appointed by His Majesty under a Royal Warrant countersigned by the Chancellor of the Exchequer.

It should be noticed that the countersignature on the Royal Warrant is not of the Secretary of State for India whose accounts the auditor audits, but of the Chancellor of the Exchequer.

(*ii*) The auditor holds office during good behaviour.

This ensures to him an independent position like the Judges in England, and the English Comptroller and Auditor-General.

(*iii*) The auditor examines and audits the accounts of the receipt, expenditure and disposal in the United Kingdom* of all money, stores and property applicable for the purposes of the Government of India Act.

The Home auditor's duties relate to what takes place in the United Kingdom. He can take no

* The Auditor audits the accounts of the High Commissioner as well as those of the India Office.

cognisance of what takes place in India; nor can the Auditor-General in India of what takes place in the United Kingdom. The two act independently of each other.

(*iv*) The auditor is entitled to receive accounts accompanied by proper vouchers for their support and to inspect all books, papers and writings having relation thereto. He is further empowered to examine* all such officers and servants of the establishment of the Secretary of State in Council, being in the United Kingdom, in relation to his audit, and is empowered for this purpose to summon before him any such officer or servant.

(*v*) The auditor submits a report to the Secretary of State in Council showing his approval or disapproval of the accounts, and specifies in detail all sums of money, stores and property which ought to be accounted for and are not brought into account and have not been appropriated in conformity with the provisions of law, or which have been expended or disposed of without due authority. He specifies defects, inaccuracies and irregularities which may appear in the accounts or in the authorities, vouchers or documents having relation thereto.

(*vi*) The auditor is further required in his report to note cases in which it appears to him that any money arising out of the revenues of India has been

* In India the Auditor-General has, under Rule 17 of the Auditor-General's Rules, the power to require—except in the case of secret documents when a statement certified by the Governor-General in Council or the local government is accepted—that any books, papers, or writings relating to the accounts to be audited shall be sent for inspection by him or any other officer of his Department.

appropriated to purposes other than those to which they are applicable.

This is a most important provision of the law. Under section 20 (1) of the Government of India Act, the revenues of India can be applied, subject to the provisions of the Act, for the purposes of the government of India alone.

Further, section 22 of the same Act prescribes that except for preventing or repelling actual invasion of India, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both Houses of Parliament, be applicable to defraying the expenses of any military operations carried on beyond the external frontiers of India by His Majesty's Forces charged upon Indian revenues.

The charges which are to be borne by the revenues of India have been defined in section 20 (2) as follows :—

"There shall be charged on the revenues of India alone—

"(*a*) all the debts of the East India Company; and

"(*b*) all sums of money, costs, charges and expenses which, if the Government of India Act, 1858, had not been passed, would have been payable by the East India Company out of the revenues of India in respect of any treaties, covenants, contracts, grants or liabilities existing at the commencement of that Act; and

"(*c*) all expenses, debts and liabilities lawfully contracted and incurred on account of the government of India; and

"(*d*) all payments under this Act (Except* so far as is otherwise provided under this Act)."

Questions have arisen in the past in which the Home auditor has had to challenge expenditure on the ground that it was not legally chargeable to Indian revenues, under the provisions mentioned above.

With regard to expenditure in India, the Auditor-General has held that an audit officer is entitled to raise the question whether any expenditure is *ultra vires* under section 20 of the Government of India Act.

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* These words were inserted by the Government of India Act, 1919, and are intended to cover the provision for the payment of the salary of the Secretary of State and the salaries of his Under-Secretaries and any other expenses of the India Office out of British revenues, as provided in section 2 (3) of the Government of India Act.

PROVINCIAL FINANCE.

CHAPTER 13.

Financial Relations between the Provinces and the Government of India.

General.—The main features of financial administration in India having been dealt with it seems necessary to supplement that description by a brief account of the peculiar features of financial administration in the major provinces as a whole. For one thing, these provinces are the main administrative divisions of British India, and any account of Indian finance which failed to include within its scope a description of the financial machinery in these administrative units must necessarily be incomplete. Secondly, the main constitutional changes under the Montagu-Chelmsford reforms have been in the provinces, whose legislatures have been allowed freer play in the financial sphere than is the case with the Central Legislature. Lastly, finance has recently acquired a special importance in the provinces, owing to continued deficits in several provincial budgets and the urgent need of development—which means money—particularly, in the case of transferred subjects in every province, if the new regime is at all to justify itself in the eyes of the electorate.

PECULIAR FEATURES OF PROVINCIAL FINANCE.

Many features of the financial administration are necessarily common to both the central and the provincial governments. For instance, the general principles of the budget, the system of receipts and payments at district treasuries, the regulation and management of cash balances, the system of compilation and audit of Government accounts, are the same throughout British India. But outside these divergency begins. Provincial Governments have now full power with regard to the framing and presentation of their budgets and beyond furnishing certain information* to the Government of India (which is necessary for ways and means purposes) they are subject to no interference in the matter by that Government. They have been given not only separate budgets but separate sources of revenue. In fact, so far as the revenue and expenditure of the whole of India is concerned, there exists a clear cut between central and provincial items. Except income-tax, there is no head of revenue which the provinces share with the Central Government. Revenue and expenditure is thus either wholly provincial or wholly central and there are no divided heads. Whereas previously the provinces possessed no powers of taxation and borrowing, which were exclusively a matter for the Government of India, such powers have now been conceded to them, with certain safe-

* The nature of this information is given in the next chapter.

guards and limitations. The provincial legislative councils now exercise large powers over the provincial budget and particularly as regards transferred subjects their vote is binding on the local governments. It is, therefore, necessary to deal with these enlarged and special powers enjoyed by the provinces, and a survey of the subject will be attempted under the following heads:—

- (*i*) Financial relations between the provinces and the Government of India;
- (*ii*) Control over budget;
- (*iii*) Control over expenditure;
- (*iv*) Control over revenue, including taxation;
- (*v*) Control over borrowing;
- (*vi*) Control over cash balances;
- (*vii*) Control over accounts and audit.

Previous History of Provincial Finance.

The history of provincial finance really begins with the Viceroyalty of Lord Mayo, but it would be interesting to trace the development prior to that period, as such a study also serves to throw light on subsequent events. Previous to the passing of the Regulating Act of 1773 there was no central government in India. The Governments of Madras and Bombay were absolutely independent of the Government of Bengal, both administratively as well as financially, and were directly responsible to the East India Company in England. That Act definitely declared the supremacy of the Presidency of Bengal over the other two Presidencies and gave

the Governor-General of Bengal in Council the power of superintending and controlling the Governments of the other two Presidencies, including their finances. Section 31 of the Act of 1784 re-affirmed that control, which was further strengthened by the Act of 1793 which codified the constitution of the Indian Government.

In spite of the statutory powers of general superintendence and control vested in the Governor-General of Bengal in Council, very wide discretion was exercised by the subordinate presidencies in administrative and financial matters and they continued to exercise large powers with regard to expenditure within their respective jurisdictions. It was found that the existence of three more or less independent financial authorities led to great increase of expenditure and extravagance, and to check that tendency the following clause was inserted in section 59 of the Charter Act of 1833, which deprived the Governments of Madras and Bombay of their previous financial powers:—

"No Governor or Governor in Council shall have the power of creating any new office, or granting any salary, gratuity, or allowance, without the previous sanction of the Governor-General of India in Council".

From this Act dates the subordination of the provinces to the Government of India with regard to finance and subsequent developments have been in the direction of relaxing and modifying the straitness of that control. Nothing of any consequence was done up to the time of Lord Mayo

when the position was that no office over Rs. 10 a month could be created by a provincial government without a previous reference to the Government of India. Even with this centralisation of financial control extravagance was not checked and the ordinary financial condition of India, for many years before Lord Mayo's Viceroyalty, was one of chronic deficit. Though this state of affairs was also due to political causes and to certain peculiar features of the East India Company's financial administration and the aftermath of the Company's extinction, the main cause was the impossibility of restricting the ever-growing and insistent demands made by the provincial governments on the Government of India for expenditure in their provinces. As the provincial governments had no responsibility either for the revenue they collected or the expenditure they incurred they ceased to take interest both in the development of their revenues as well as in checking the growth of their expenditure.

Lord Mayo's Financial Settlement.

To provide a remedy for this evil and also to stabilise their own finances the Government of Lord Mayo in 1870-71 made a 'settlement' with the major provinces, under which they made them financially responsible for the administration of certain spending departments, such as police, education, jails, medical services (in part), printing, registration, roads and civil buildings, by assigning to each province a fixed

sum from which the expenditure on those departments was to be met. The assignment made to the provinces was about rupees forty lakhs less than the expenditure in the previous year, and the provinces were left to find the balance themselves by local taxation, if necessary. No heads of revenue were made over to them, though they were allowed to appropriate for the purposes of the services assigned to them such departmental receipts as normally accrued under those heads. In the administration of the assigned departments the provincial governments were subject to certain restrictions, regarding creation of appointments, grants of pensions, gratuities, leave, promotions, etc.—restrictions which have since been considerably relaxed and modified in various directions. The amount allotted to each provincial government for the service of the departments made over to it was based upon actual expenditure at the time, with the result that those provincial governments which had been most extravagant got the largest share of the total assignment made to the provinces. Thus provinces that had been under British rule for a long time and had got accustomed to a fairly high standard of administration were comparatively well off, while backward and new provinces, poorly provided with public buildings, jails, colleges and hospitals, necessarily found themselves in difficulties, for, with the fixed amount placed at their disposal, they could not meet their future requirements which were very great.

SUBSEQUENT QUINQUENNIAL REVISIONS.

No period was fixed for the above mentioned arrangement by the Government of India, but it remained current for six years from 1st April 1871 to 31st March 1877, when the Government of Lord Lytton took a step forward in the direction of liberalising the terms of the provincial settlements. Lord Mayo's scheme had already proved successful and had brought about great economy in expenditure on the heads assigned to the provincial governments. But that scheme applied only to one part of the financial system, namely, to certain branches of expenditure. The logical inference from the success of the step taken by Lord Mayo's Government was that if provincial governments could administer economically departments made over to them, they would also try to increase the productiveness of existing sources of revenue, if they were given a substantial share in such improvements. Accordingly, in the new settlements made in 1877*, certain principal heads of revenue, such as excise, stamps, law and justice (courts) were made over to provincial governments, the growing receipts from those sources taking the place *pro tanto* of the former fixed lump sum grant. Certain additional heads of expenditure were also made over to provincial management, such as land revenue, general administration, law and justice and miscellaneous. The deficiency in provincial revenue in relation to provincial expendi-

* All provincial financial settlements from this date up to 1904 were for a period of 5 years and were revised at the end of that period.

ture was made good by a fixed annual grant to each province. At this revision the Government of India again left the provinces to find a sum of Rs. 40 lakhs from provincial resources—thus improving their own finances to that extent.

During the revisions made in 1882, 1887, 1892 and 1897 no important changes of principle were introduced. In 1882 certain heads of revenue and expenditure were 'divided' between the provinces and the Government of India in varying proportions and this scheme of division received considerable expansion later on. The number of completely provincial heads of revenue and expenditure was steadily enlarged at each revision and the fixed annual grants diminished *pro tanto*. The financial powers of provincial governments were also enhanced though not to any substantial extent.

The Quasi-Permanent Settlement of 1904.

The revision of the contract of 1897 was made in the year 1904, under the direction of Sir Edward Law in the Viceroyalty of Lord Curzon. It was found that the quinquennial revisions led to friction and controversies with the provincial governments and that the system even tended to encourage extravagance rather than economy. For the provincial governments that administered their departments economically found from past experience that they would be penalised for such economical management by having to surrender a portion of their savings at the next settlement, with the result that they

tried to reduce such savings as much as possible during the expiring period of their settlement by incurring fresh liabilities, not always with due regard to the needs of the administration or the moral and material welfare of the people committed to their care—something akin to the rush of expenditure in March that takes place under the existing system of annual budget allotments. Moreover, the apportionment of revenue to the provinces—being based on actual expenditure—bore little relation either to their requirements or to their capacity to contribute. To remedy these defects, a system of quasi-permanent settlements was introduced, the main features of which were as follows:—

(1) It was laid down that the revenues assigned to a provincial government were definitely fixed and were not subject to resumption by the Government of India, save in the case of grave Imperial necessity, such as war or famine or in the event of experience proving the assignment made to a province to have been materially disproportionate to normal provincial requirements. Provincial governments could thus count upon a reasonable continuity of financial policy and were enabled to enjoy fully the fruits of their economies, instead of hurrying into ill-considered proposals in order to raise their apparent standard of expenditure, so as to leave as small a balance as possible for resumption by the Government of India at the impending revision.

(2) The income assigned to the provincial governments was to be in the form of a defined share of the revenue which they collected in order that the resources of the provincial governments might expand along with the needs of the administration. The system of making fixed lump sum assignments to meet expenditure which necessarily had a tendency to grow was materially modified, though not completely abandoned.

(3) As far as possible, the same share of the chief sources of revenue was given to each province, with a view to ensuring reasonable equality of treatment.

The Decentralisation Commission and Subsequent Changes in the Settlements.

The provinces were, however, still dissatisfied with their settlements and the meticulous character of the administrative and financial control exercised over them by the Government of India. The position was reviewed by the Royal Decentralisation Commission appointed in November 1907. Some of the provincial governments were very bitter about the 'divided' heads—these naturally brought in the intervention of the Government of India, as the latter were affected by provincial action, both in the revenue as well as expenditure under these heads—and they advocated their entire abolition and the allocation to the provinces of separate heads of revenue and expenditure. But no such change of principle was recommended by the Commission. In 1911, the financial settlements with the

provinces were made permanent, with the usual reservations regarding mutual assistance in abnormal times. On the 18th May 1912, the Government of India issued a comprehensive resolution dealing with various questions connected with provincial finance arising from the recommendations made by the Decentralisation Commission. The provinces were given fresh sources of growing revenue in place of fixed lump sum assignments, which were *pro tanto* diminished but not abandoned. To this extent provincial resources were strengthened and the provinces put in a better position to meet their growing expenditure.

The Declaration of 20th August 1917.

The changes briefly outlined above all tended in one direction, *viz.*, an ultimate separation of provincial from central finance. The goal was perceived long ago but no definite steps to that end could be taken until a change of policy in the relations between the Government of India and the provinces was decided upon. Statesmen such as John Bright, Sir Charles Trevelyan, Samuel Laing, Sir Edward Law, clearly foresaw the trend of events. Sir Charles Eliott as President of the Finance Committee of 1886, submitted a scheme for the consideration of the Government of India, the main outlines of which were similar to the scheme introduced under the Montagu-Chelmsford reforms, but, of course, without the dyarchy. The provincial governments, he suggested, should be given separate

heads of revenue and expenditure, there were to be no divided heads, and the all-India deficit was to be met by contributions from the provinces. This scheme was, however, not accepted at the time and no progress on the lines recommended by Sir Charles Eliott was made. The question came up again in 1897 before the Welby Commission, when the late Mr. Gokhale, Mr. (now Sir) Dinshaw Wacha and Mr. (now Sir) Surendra Nath Bannerjee, also suggested the adoption of a scheme similar to that framed by Sir Charles Eliott, but without any practical effect. Lord Hardinge's Government took up the question of provincial autonomy in their celebrated despatch of 25th August 1911, but subsequent events in the House of Lords gave a different complexion to the intentions of Government, as was made clear in the debate in the Indian Legislative Council in 1914 on a resolution moved on the subject by Mr. Surendra Nath Bannerjee. Non-official opinion in India has for a very long time been advocating provincial autonomy, but for reasons and objects different from those by which provincial governments were at one time actuated. The non-official view is that provincial legislatures should be given power to control the policy of provincial governments, unhampered by official control from above, in purely provincial matters. As Mr. Surendra Nath Bannerjee remarked in the budget debate in 1916:—"Decentralization as such (*viz.*, as a measure of administrative convenience) is more

or less the devolution of power from officials to officials. What we are anxious about is not so much administrative convenience as an increase of popular authority over provincial finance."

With the ever-memorable declaration of the goal of British policy made on the 20th August 1917, there came a change in the angle of vision. Though there is nothing specific in this announcement on the subject of provincial autonomy, the authors of the Joint Report in para. 189 made the following recommendation :—

"The provinces are the domain in which the earlier steps towards the progressive realisation of responsible government should be taken. Some measure of responsibility should be given at once, and our aim is to give complete responsibility as soon as conditions permit. This involves at once giving the provinces the largest measure of independence, legislative, administrative and financial, of the Government of India which is compatible with the due discharge by the latter of its own responsibilities."

These very words, practically, are incorporated in the Government of India Act, 1919, which contains in its preamble the following clause :— "And whereas concurrently with the gradual development of self-governing institutions in the provinces of India it is expedient to give to those provinces in provincial matters the largest measure of independence of the Government of India, which is compatible with the due discharge by the latter of its own responsibilities." This is the first definite statement of policy regarding the relations of the provinces with the Government of India.

The Present Scheme of Financial Relations between the Provinces and the Government of India.

The authors of the Joint Report recommended that the provinces should be given separate sources of revenue and the divided heads of revenue and expenditure abolished. They also recommended that the provinces should be entrusted with all heads of revenue and expenditure which related entirely to provincial matters, leaving only such few heads to the Government of India in regard to which uniformity or centralised administration was desirable. The central heads, however, according to their scheme, were not by themselves sufficient to keep the Central Government in funds and they therefore proposed that the all-India deficit should be met by contributions from the provinces. This at once raised the question, *viz.*, on what basis such contributions were to be raised and the equally thorny question of remedying the inequality of treatment as between the provinces under the then existing settlements. The latter question, they suggested, should be left for investigation by the Statutory Commission recommended in another connection in their Report, which was to be appointed after a period of ten years from the inauguration of the reforms. As regards the first question, *viz.*, the mode of contribution, they proposed that each province should contribute a percentage—which, on their figures, worked out to be 87—of the difference between the gross provincial revenue and the gross provincial expenditure.

The Government of India considered both these questions in their famous despatch of 5th March 1919 and were of opinion that it was inadvisable to wait for a period of ten years for the fixing of a standard scale of contributions for the provinces. They thought that this should be done as soon as possible, and suggested the appointment of a committee to advise fully upon the subject, so that each province might know exactly how it stood before the new regime started.

The suggestion was accepted by the Secretary of State for India and endorsed by the Joint Select Committee of Parliament which sat on the Reform Bill. Accordingly, a committee consisting of Lord Meston, Mr. Charles Roberts and Commander E. Hilton Young was appointed by the Secretary of State to advise on the contributions to be paid by the provinces to the Central Government for the financial year 1921-22; and the modifications to be made in the provincial contributions thereafter with a view to their equitable distribution, until there ceased to be an all-India deficit.

The Committee took as their basis the scheme proposed in the Joint Report, which they found generally satisfactory. They, however, found that with the arrangements proposed in the Joint Report, some of the poorer provinces would start with little or no surplus revenue and they accordingly suggested the inclusion of general stamps among the provincial heads.

The Committee had two other tasks before them:—(1) the fixing of the initial contributions from the provinces and (2) the fixing of the rate of standard contributions from the provinces. So far as the fixing of the initial contributions was concerned, the question was comparatively an easy one. On the basis of certain calculations made by them, the Committee worked out the all-India deficit at Rs. 983* lakhs in the year 1921-22. The question then arose as to how this deficit should be distributed over each province and contributions of fixed amounts levied from them. Two limiting considerations guided the Committee in framing their scheme:—(1) that each province should, after making its contribution to the Government of India, be left with a reasonable working surplus, and (2) that no contribution should be such as would force the province to embark on new taxation *ad hoc*, which would be an unthinkable sequel to a purely administrative re-arrangement of abundant general resources. They therefore abandoned the attempt to remedy inequality of treatment in the initial stages and proposed that initial contributions should be assessed on the increased spending power† which the provinces were to enjoy under the

* In this calculation the Meston Committee took the rate of exchange at 2*s.* to the rupee, and military expenditure at Rs. 43 crores. Both these expectations have not been realised. Exchange is now at 1*s.* 4*d.* to the rupee and military expenditure in the neighbourhood of 60 crores. It will thus be seen that in effect the suppositions of the Meston Committee have proved to be unduly favourable to the provinces and unfavourable to the Central Government.

† Increased spending power means the difference between the revenue of a province prior to the new arrangement and the revenue accruing to it under the new arrangement. Increased spending power, it will be obvious, is not the same thing as the gross provincial surplus.

proposed arrangement, instead of as a percentage of the gross provincial surplus, as recommended in the Joint Report.

As regards standard contributions they thought that the ideal basis was the capacity of each province to contribute to the purse of the Government of India and in fixing such a scale they took into account various factors, such as agricultural and industrial wealth, liability to famine, capacity and need of each province for expansion and development, elasticity of the existing heads of revenue, development of mineral wealth and forests, etc. Taking all these factors into consideration they arrived at the following standard rate of contributions :—

Province.	Per cent. contribution to deficit.
Madras	17
Bombay	13
Bengal	19
United Provinces	18
Punjab	9
Burma	6½
Bihar and Orissa	10
Central Provinces	5
Assam	2½
Total ..	100

The next question then arose : In what interval of time the standard contributions should be reached

and by what stages. The Committee recommended that while the interval to be allowed for adjustment should be sufficient to enable the provinces to adjust their budgets to the new conditions, it should not be unduly prolonged. They therefore suggested that in the seventh year of contribution the standard rates should be reached and that the process of transition from the initial to the standard ratio should be continuous, beginning in the second year of contribution and proceeding in six equal annual steps.

The task before the Meston Committee was a most thankless one. The report of the Committee was circulated by the Government of India to the provincial governments for opinion. Nearly all of them challenged the findings of the Committee and considered them as unfair to their own province and unduly favouring the rest which, in the circumstances, was, perhaps, the best tribute that could be paid to their labours. The whole question was reconsidered by the Joint Parliamentary Committee along with the draft Devolution Rules of which it formed a very vital part. The Committee, while accepting the main recommendations of the Meston Committee, suggested:—(*i*) that instead of making the receipts from income tax wholly Imperial, as was proposed in the Joint Report and also by the Meston Committee, the provinces should be granted some share in the growth of revenue from that head, so far as that growth was attributable to an increase in the amount

of income assessed; (*ii*) that in no case should the initial contribution payable by any province be increased, but that the gradual reduction of the aggregate contribution should be the sole means of attaining the theoretical standard recommended by the Meston Committee; and (*iii*) that provincial contributions should cease at the earliest possible moment. The Committee also expressed the hope that the Government of India and the Secretary of State in Council would, in regulating their financial policy, make it their constant endeavour to render the Central Government independent of provincial assistance at the earliest possible date. The Committee also added their recognition of the peculiar financial difficulties of the Presidency of Bengal, which they commended to the special consideration of the Government of India.

The main features of the scheme actually sanctioned are the following:—

(1) A clear demarcation of the functions of the provincial and central governments;

(2) A definite allocation of revenue to the provincial governments;

(3) The payment of fixed annual contributions by the provinces to the Central Government.

(1) Demarcation of Functions.

Certain subjects have been classed as provincial and others as central. Central subjects are the primary concern of the Central Government while provincial subjects are the primary concern of the

provincial governments. Provincial subjects are further divided into reserved and transferred. As regards reserved subjects provincial governments are subject to the general power of superintendence, direction and control vested in the Government of India, but as regards transferred subjects the powers of intervention of the Government of India (as also of the Secretary of State) are restricted by statutory rules and can be used only for certain purposes specified therein.

In the financial field this demarcation has had the effect of making a clean cut between the Central Government and the provinces in the matter of allocation of heads of revenue and expenditure. For when a subject is classed as provincial, both the revenue and the expenditure in connection therewith are provincial. A list of provincial subjects by account heads is given below—of these the transferred subjects are indicated in italics.

(1) Land Revenue.
(2) *Excise* (except in Assam).
(3) Stamps.
(4) Forests (*transferred only in Bombay and Burma*) including capital outlay not charged to revenue.
(5) *Registration.*
(6) Irrigation, including capital outlay not charged to revenue.
(7) General Administration (*a portion is transferred.*)

(8) Administration of Justice.

(9) Jails and Convict Settlements.

(10) Police.

(11) *Scientific Departments.*

(12) *Education.*

(13) *Medical.*

(14) *Public Health, including capital outlay not charged to revenue.*

(15) *Agriculture.*

(16) *Industries.*

(17) Miscellaneous Departments, such as inspection of factories, inspection of steam boilers, provincial statistics, etc.

(18) *Civil Works, including capital outlay not charged to revenue* (a portion is reserved). In Assam this is a wholly reserved head.

(19) Famine Relief and Insurance.

(20) *Superannuation and Pensions (a portion).*

(21) *Stationery and Printing (a portion).*

(22) Interest on Ordinary Debt.

(23) Sinking Funds.

Though the list given above is by heads of account it should be borne in mind that it is 'subjects' and not 'heads of account' that have been transferred. It has accordingly happened in some cases that part of a head of account is reserved and part of it is transferred. Thus, while the construction and maintenance of buildings, which is classified in the accounts and estimates under the head 'Civil Works,' is a transferred

subject, the construction and maintenance of Governor's buildings, which is also similarly classified in the accounts and estimates, is a reserved subject. Similarly, with regard to the education of Europeans and Anglo-Indians, which is a reserved subject, while education as a whole is transferred. The same remarks apply to the classification between Central and Provincial. The classification again is by subjects and not by account heads. It thus happens that part of an account head is Central and part of it is Provincial. For instance, while railways as a whole is a central subject, some light and feeder railways constitute a transferred subject. This scheme of classification does, therefore, introduce some complexity in the accounts and estimates, but is based on considerations of greater importance than mere account classification and the inconvenience has, therefore, to be accepted as inevitable. Further reference to this point has already been made in the chapter on Government Accounts.

(2) Definite Allocation of Revenue to the Provincial Governments.

Prior to the passing of the Government of India Act, 1919, the view held was that the revenues of India were the revenues of the Government of India —its constitutional possession—and that every action that a provincial government took in respect of them must be justified by a specific order of the Government of India and that apart from that Government the provincial governments could exercise no financial powers whatever. This inter-

pretation was evidently based on section 20 (1) of the Government of India Act, which runs as follows:—

"The revenues of India shall be received for and in the name of His Majesty, and shall, subject to the provisions of this Act, be applied for the purposes of the government of India alone."

As stated in paragraph 104 of the Joint Report this provision "had the effect of denying to provincial governments any inherent legal right to the revenues which they raised." In order to remove this ambiguity in the statute and to confer larger powers on the provincial governments, section 45A of the Government of India Act provides as follows:—

"(1) Provision may be made by rules under this Act . . . .

(*b*) . . . . . . , for the allocation of revenues or other moneys to those (local) governments."

It will be noticed that under the above provision not only may 'revenues' alone be allocated to provincial governments but also 'other moneys', which would cover provincial cash balances, proceeds of loans, etc. Provision has accordingly been made in the Devolution Rules for such an allocation and Rules 14 and 15 (of these rules) contain the list of 'sources of provincial revenue' in each Governor's province.

(3) Contributions by the Provinces to the Central Government.

Devolution Rules 17 and 18 provide, in accordance with section 45A (2) (*ii*) of the Government

of India Act, for the annual payment of contributions by the provinces to the Governor-General in Council. Rule 19 lays down that in cases of emergency the Governor-General in Council with the sanction of the Secretary of State may demand an excess contribution from the provinces. Rule 20 makes the contributions a first charge on the provincial revenues. Moreover, under section 72D (3) (*i*) of the Government of India Act, no vote of the Legislative Council of the province is required for such a contribution.

Under Rule 17 the amounts payable during the year 1921-22 were as follows:—

Name of province.*	Contribution in lakhs of rupees.
Madras	348
Bombay	56
Bengal	63
United Provinces	240
Punjab	175
Burma	64
Central Provinces and Berar ..	22
Assam	15

As for the contributions in subsequent years Devolution Rule 18 lays down as follows:—

"From the financial year 1922-1923 onwards the total contribution of 983 lakhs, or such smaller sum as may be determined by the Governor-General in Council, shall be paid to the Governor-General in Council by the local governments mentioned in the preceding rule. When for any year the Governor-

* Bihar and Orissa pays no contribution. The scheme applies only to these nine provinces, which are known as Governor's provinces.

General in Council determines as the total amount of the contribution a smaller sum than that payable for the preceding year, a reduction shall be made in the contributions of those local governments only whose last previous annual contribution exceeds the proportion specified below of the smaller sum so determined as the total contribution; and any reduction so made shall be proportionate to such excess":—

Madras	17 /90ths.
Bombay	13 /90ths.
Bengal	19 /90ths.
United Provinces	18 /90ths.
Punjab	9 /90ths.
Burma	6½ /90ths.
Central Provinces and Berar..	5 /90ths.
Assam	2½ /90ths.

It will be seen from the above that the recommendations made by the Meston Committee as regards the period within which the standard contributions were to be reached and the sliding scale for the transition period have not been accepted, though the principle of the percentage recommended for the standard contributions has been accepted, as far as reductions are concerned. Increases in provincial contributions are not at all contemplated in the above rules. There is no obligation on the Governor-General in Council to reduce the contributions within a given time or from any particular financial year. Only when he does decide upon a reduction in the total provincial contribution, the above rule prescribes the manner in which the benefit of the reduction is to be distributed over each province.

The Government of India have, on several occasions, pledged themselves to a policy of progressive reduction and final extinction of these contributions. This question has given rise to very keen and prolonged discussions, in the central and provincial legislatures as well as in the press and on public platforms. But, owing to continued deficits in the central budget—the budget for 1923-24 is the first balanced budget after a number of years—such a step has not so far been found feasible, with the exception of Bengal, whose contribution has been waived for a period of three years with effect from 1922-23, in pursuance of a resolution to that effect moved by the Finance Member of the Government of India and passed by the Legislative Assembly on the 30th September 1921.

CHAPTER 14.

CONTROL OVER BUDGET.

Separation of Provincial from Central Budgets.—When Lord Mayo's decentralisation scheme of 1871 was introduced, "the local Governments had power to allot the revenue thus assigned to them at their discretion, subject to general financial rules. The expenditure was passed under a single heading, 'Provincial services' in the budget of India, and the Government of India did not check or alter the detailed Provincial estimates." (Decentralisation Commission Report, para. 55, page 27). In 1877, however, it was ordered that provincial receipts and expenditure should be shown again in detail in the all-India budget. This practice continued till the introduction of the Montagu-Chelmsford reforms, and though the scrutiny exercised was continuously relaxed from time to time, the budget figures of the provincial governments were sent up to the Government of India through the provincial Accountant-General and underwent revision in the Finance Department of the Government of India. The question was gone into by the Decentralisation Commission, but practically no great change in the then existing system was recommended by that body. They, however, went on to say that if "pro-

vincial legislatures are given an effective share in the control of provincial finance, ... that would render it desirable to give the provinces more distinct sources of revenue, and, concomitantly, more final powers over their budgets." With the grant of large financial powers to the local Legislative Councils under the Montagu-Chelmsford reforms, the control exercised by the Government of India over the provincial budget has practically ceased. The provincial budget is no longer sent to the Government of India for scrutiny. The work so far as it relates to provincial items, reserved as well as transferred, is transacted in the provincial Secretariat. The only information that the Government of India require in connection with the provincial budget estimates is :—

(*i*) The amount of the probable addition to, or withdrawal from, the provincial balance anticipated for the coming year, together with the opening and closing balances.

(*ii*) The amount of assistance, if any, which the local Government expects to require in the coming year in the shape of loans from the Central Government, and the amount of repayments of such loans.

(*iii*) The opening and closing balances for the next year of the Famine Insurance Fund.

(*iv*) The extent to which it is proposed to pay off the balance of the Provincial Loan Account in the coming year.

The mode of preparation of the budget has already been explained in a separate chapter. In

this chapter it is proposed to deal with the scrutiny applied to the budget by the Finance Committee and the Legislative Council respectively.

The Finance Committee.—Finance Committees of Legislative Councils were in existence in some provinces even prior to the Montagu-Chelmsford reforms, and were entrusted with the task of advising on fresh items of expenditure proposed for inclusion in the provincial budget. The degree of the influence exercised by such Committees was dependent on the spirit animating the provincial government for the time being, but the fact remained that the principal for whom the Committee spoke and worked was in itself devoid of any real power in shaping the budget. Since the introduction of the Montagu-Chelmsford reforms, things have changed materially and the position of the Finance Committee, though legally much the same, is morally much stronger. This Committee is not referred to either in the Government of India Act or in the rules framed thereunder, but is appointed under the permissive provision made in the Standing Orders of each local Legislative Council for the appointment of standing committees of the Council. Its functions, therefore, are entirely a matter for the Governor in Council in each province to decide. In the Punjab the functions of the Finance Committee are understood to be as follows:—

(*a*) To advise Government on all proposals for new expenditure which require the sanction of the

Legislative Council before they are submitted to the Council.

(It is principally under this clause that Part II-B of the estimates—*vide* the chapter on the preparation of the budget—is submitted for the scrutiny and approval of the Finance Committee.)

(*b*) To advise on such proposals for re-appropriation within the competence of the Finance Department as the latter refers to it.

(*c*) To exercise such powers of re-appropriation not within the competence of the Finance Department as the Council may authorise it to exercise.

(*d*) To advise Government on such other matters connected with finance as Government may refer to it.

The above may be taken to be typical of the functions generally exercised by Finance Committees in other Governor's provinces also. The Committee is purely advisory in character and deals only with votable items of expenditure. It is a great help to the Finance Department to be able to say to the Council that such and such an item has received the approval of the Finance Committee, and the result is that such approved items are as a rule voted by the Council without much discussion. Being a comparatively small body and bound by no elaborate rules of procedure the Finance Committee can go into greater detail and thus exercise in some ways a more effective check over expenditure than the Legislative Council itself.

THE LEGISLATIVE COUNCIL.

Budget Procedure in the Council.*—Under section 72 D (2) of the Government of India Act, a statement of the estimated annual expenditure and revenue of a province has to be laid before the Legislative Council in each year, and the proposals of the local government for the appropriation of provincial revenues and other moneys† in any year have to be submitted to the vote of the Council in the form of demands for grants. In accordance with this statutory requirement the budget of the province is presented to the Council on a day appointed by the Governor, which is usually about the end of February or beginning of March, the new financial year opening on the 1st of April. The 'demands for grants' state clearly what portion of the expenditure under each demand is votable and what is non-votable (under sub-section (3) of section 72 D of the Act, to which reference will be made later) and also which portion relates to a reserved and which to a transferred subject (under the classification prescribed in Devolution Rule 20 and the Schedules thereunder). Ordinarily, a major head of account is taken as the unit of a demand for grant. It is provided in the rules that a separate demand should, ordinarily, be made in respect of the grant proposed for each department of the government and that demands affecting

* The procedure is generally the same as for the central legislature in several respects. Only special features which require specific mention are given in this chapter. For general remarks see the chapter on the voting of the budget.

† The term 'other moneys' covers expenditure out of loan funds and what are generally known in the accounts as 'debt and remittance heads'.

reserved and transferred subjects should, so far as might be possible, be kept distinct. The usual form in which a demand for a grant—of which formal notice has to be given—is presented to the Council is as follows :—

"That a sum not exceeding Rs.———be granted to the local government* under the head———to defray the charges which will come in course of payment during the year ending on March 31, 19——."

With each demand there is a statement of the detailed estimate divided into items, which is of help to the Council in understanding the budget proposals and making suggestions during the budget discussion.

On the day on which the Finance Member of the Governor's Executive Council introduces the budget in the Council there is no discussion and the work in connection with the budget concludes for the day with the termination of the Finance Member's speech. A few days afterwards there is a general discussion on the budget, when the Council is at liberty to discuss the budget as a whole or any question of principle involved therein (but not details, which would be appropriately brought in at the time of the voting on the demands for grants) whether relating to votable or non-votable items, but at that stage no motion can be moved nor can the budget be submitted to the vote of the Council. A discussion of the revenue portion of the budget can also take place at this stage, for, if no proposal for taxa-

* In the case of a reserved subject the demand emanates from the Governor in Council, and in the case of a transferred subject from the Governor acting with Ministers.

tion is before the Council, no other opportunity of commenting on the revenue estimates is afforded later on. This discussion, which sometimes takes two days, is wound up by the Finance Member, who has a general right of reply at the end.

For the voting of grants the rules permit the allotment of 'not more than 12 days', provided that 'not more than 2 days' are allotted by the Governor to the discussion of any one demand. Usually, less than 12 days—varying from six to nine generally—are allotted and it is found, as is also the experience of the British House of Commons, that all the grants cannot be disposed of within the period allotted. For instance in Bengal, on the voting of demands for the year 1923-24, there were no fewer than 950 amendments to be disposed of and it was calculated that to deal with the budget within the allotted time each amendment must be proposed and receive the official reply within the space of four minutes—obviously a farcical position. Accordingly, on the last day the President is required to 'put every question necessary to dispose of all the outstanding matters in connection with the demands for grants', and in this way several demands are voted by the Council without any discussion.

Non-votable items.—Under section 72 D (3) of the Government of India Act, the following items have been excluded from the vote of the Council :—

(*i*) Contributions payable by the local government to the Governor-General in Council ; and

(*ii*) Interest and sinking fund charges on loans; and

(*iii*) Expenditure of which the amount is prescribed by or under any law; and

(*iv*) Salaries* and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council; and

(*v*) Salaries of Judges of the High Court of the province and of the Advocate-General.

Sub-section 4 authorises the Governor to decide, in cases of doubt, whether any proposed appropriation of moneys does or does not relate to the above heads of expenditure. Funds for the items mentioned above are appropriated entirely by the 'Local Government', which means the Governor in Council in the case of reserved subjects and the Governor acting with Ministers in the case of transferred subjects.

It has been decided by the Law Officers of the Crown that the effect of the provisions of sections 52 (1) and 72 D of the Government of India Act is that a vote of a Legislative Council, taken before the presentation of the budget, to determine a Minister's salary does not preclude the Council from varying that salary by subsequent votes and does not remove the salary from the control of the Council under section 72 D. They have also advised that the provisions of section 72 D (3) (iii) are limited to "amounts prescribed by or under any

* For the interpretation of this term reference is invited to the chapter on the voting of the budget.

law" and do not include amounts fixed by a vote only.

Special and Emergent Powers of the Executive Government.

Over and above these items which are excluded from the vote of the Council, there are two classes of cases in which the authority of the Council is more or less neutralised :—

(*i*) Under section 72 D (2) (*b*) of the Government of India Act, the Governor of a province has* power in cases of emergency—of which he himself must naturally be the judge—to authorise such expenditure as may be in his opinion necessary for the safety or tranquillity of the province or for the carrying on of any department, reserved or transferred.

(*ii*) Under section 72 D (2) (*a*) it is provided that if a demand relating to a reserved subject has been refused or reduced by the Council and the Governor certifies that the expenditure provided for by the demand is essential to the discharge of his responsibility for the subject, the local government shall have power†, in relation to any such demand, to act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to, by the local Legislative Council. It should be noticed that this power can be exercised only in the case of reserved departments. So far as transferred departments

* This power has, in some provinces, been already exercised. For its true purpose see the chapter on the voting of the budget where the corresponding power of the Governor-General is explained.

† This power has already been exercised in several provinces.

are concerned, the Governor has no such power and the vote of the Council in all such departments is final and binding on the executive government, except in cases of emergency referred to in (*i*) above.

As regards the cases falling under both (*i*) and (*ii*) above, it is laid down in the Standing Orders that the Finance Member shall, as soon as may be thereafter, lay on the table of the Council a statement showing the action so taken by the Governor, but no motion shall be made in regard to that action, nor shall the statement be discussed.

Prohibition with regard to initiation or increase of expenditure.—The position of the local Legislative Council in this matter is the same as that of the Legislative Assembly, which has already been discussed in the chapter on the voting of the budget in connection with the voting of grants, and to which a reference may be made.

Supplementary and excess grants.—The remarks under these headings in the chapter on the voting of the budget apply also to the provincial legislature, with the necessary nominal modifications.

Appropriation out of Loan Funds.

The power of the Legislative Council to vote grants extends not only to appropriations out of revenues—as ordinarily understood—but also to appropriations out of 'other moneys', which includes expenditure from loan funds, such as capital expenditure on irrigation works, loans to agriculturists, muni-

cipalities, district boards, co-operative credit societies, etc. But though expenditure from loan funds requires the vote of the Council, the latter has not the power to control the manner of raising loans or the terms and conditions or the time at which such loans are to be raised, this being a matter entirely for the executive government.

Powers of the Council with regard to Taxation Proposals.

The powers and functions of the Legislative Council with regard to taxation proposals in the budget will be dealt with separately in the chapter relating to control over revenue.

Extent of the General Control of the Legislative Council over the Budget.

The extent of the Legislative Council's control over the provincial budget will appear from the following figures taken from the estimates of the Government of the Punjab for the year 1922-23. Out of the total estimated expenditure of Rs. 12,22,39,270, the total voted expenditure was Rs. 8,97,26,218 or very nearly 75 per cent. of the whole. If, however, from this figure we omit contributions and assignments to the Central Government, interest on loans, provision for famine relief and insurance, which are all fixed by law, and thus not within the power even of the provincial government to vary, it will appear that the power of the Council to control the expenditure extends to no less than 92½ per cent. of the remaining total. It may also be noted here that

out of the total expenditure referred to above a little over Rs. 3¼ crores is voted expenditure relating to the transferred departments, over which, as already mentioned in the preceding paragraphs, the power of control of the Council is absolute. Only a sum of a little over Rs. 20 lakhs is non-votable so far as the transferred departments are concerned. In the United Provinces of Agra and Oudh it was stated in the budget debate of 1921 that excluding certain sums which Government were bound by law to pay, the amount of votable expenditure was 89 per cent. of the total and non-votable expenditure only 11 per cent. In Bombay, a non-official member of the local Legislative Council in commenting on the budget figures of 1922-23 referred to the powers of the Bombay Council in a public speech as follows:—

"Voting the budget demands for grants was the second important right which they had got under the Government of India Act. The magnitude of that right could be gauged from the fact that out of the total* expenditure of Rs. 1,570 lakhs, Rs. 1,073 lakhs were votable, *i.e.*, about 68 per cent. And although it was true that in the domain of the reserved subjects rejected demands for grants might be restored by H. E. the Governor in Council, none so far had been so restored and a convention in favour of respecting the wishes of the Council even in the items of expenditure in the reserved subjects had so far been allowed to grow. So they had virtually what was known as the power of the purse over 68 per cent. of the expenditure; they were thus masters of their house in the transferred subjects."

The figures given above may be taken to be typical of the provinces generally.

* This is inclusive of obligatory items of expenditure.

CHAPTER 15.

CONTROL OVER EXPENDITURE.

There are two agencies involved in the control of expenditure, *viz.*, the Legislative Council and the Executive Government. The control exercised by each is of a distinct nature. It has already been stated that there are two elements necessary before public money can be spent—(1) There must be an act of sanction of an authority competent to sanction; and (2) there must be an act of appropriation of funds for the purpose, by an authority competent to appropriate. Of these, broadly speaking, the Executive Government controls the first operation and the Legislative Council the second. In the case of non-votable items, however, the Executive Government controls both: it accords administrative sanction as well as appropriates the requisite funds.

CONTROL BY THE LEGISLATIVE COUNCIL.

The character of the control exercised by the Legislative Council in dealing with budget estimates, supplementary estimates and excess grants has already been explained in the chapter relating to control over budget. In that chapter reference has also been made to the duties and functions of the Finance Committee of the Council in advising on fresh items of expenditure, supplementary estimates,

certain classes of re-appropriations and other matters. In addition, the Public Accounts Committee exercises on behalf of the Legislature control over expenditure, in the manner indicated in the chapter on "Enforcing accountability". The spending of money, however, is essentially an executive function, in the exercise of which the Executive Government must have a comparatively free hand. The Legislature deals with the general policy of the administration as reflected in the departmental estimates, it prescribes money limits for particular objects of expenditure and it satisfies itself that its intentions and directions have not been departed from by the executive government. The Legislative Councils in India have attempted even more: they have had retrenchment committees appointed which have suggested far-reaching economies in public expenditure and other ways of controlling its growth in the future. In this work no doubt they have had the most ungrudging co-operation of the departments themselves, but the initiative has come in several cases from the Councils.

Democratic Finance.

The times are, however, special and there are not absent tendencies which remind one of the late Lord Bryce's inference on the working of democracies. "Economy", he says, "once expected to be among the strong points of democracy, has proved to be its weakest. Financial waste is worst in the United States National Government, owing to the desire

to win votes by grants from the public treasury to localities, but the same evil is rampant in Canada and New Zealand and to a less extent in France and Australia." As instances of such tendencies in the provinces of India might be mentioned the following :—

(*i*) In one province a non-official member proposed in a resolution the doubling of the emoluments of certain classes of village officers, costing annually an extra Rs. 33 lakhs.

(*ii*) In another province a similar proposal was brought forward, costing annually an extra Rs. 26⅓ lakhs.

(*iii*) In still another province it was proposed that members of the Council should receive monthly salaries with free railway passes accompanied with the power to frank letters, etc., at the public expense. The mover went on to say that the Council should not clamour for economy in season and out of season, as was done by third class editors and sub-editors of a certain town when they found that they had nothing to fill their columns with.

(*iv*) In the same province a member proposed that pensionary status should be conferred on certain temporary servants of the Government drawing pay from Rs. 100 to Rs. 200 per mensem.

(*v*) In another province, while condemning the 'exodus to the hills' of Government officials, the Council rejected a resolution against holding a session of the Council every year in that very hill station.

(*vi*) In the same province a non-official member moved for an increase in the scale of daily allowance to members of the Council for journeys undertaken in connection with Council meetings.

The above is by no means an exhaustive list; it will, however, suffice to show which way the wind may blow after a time.

CONTROL BY THE EXECUTIVE GOVERNMENT.

The control of expenditure by the Executive Government may be considered under the following heads:—

(*i*) Control by the Secretary of State in Council.

(*ii*) Control by the Governor-General in Council.

(*iii*) Control by the Finance Department of the province.

(*iv*) Control by the Audit Department.

CONTROL BY THE SECRETARY OF STATE IN COUNCIL.

By law, the Secretary of State in Council has the final voice in all matters relating to expenditure out of Indian (Central or Provincial) revenues, *vide* sections 2 (2) and 21 of the Government of India Act. As a matter of administrative convenience, however, he has, from time to time, delegated some of his powers to the Government of India and the provincial governments and has authorised those governments to re-delegate the powers thus conferred upon them to subordinate authorities.

Transferred subjects.—There is a fundamental difference in the nature of the control exercised by

the Secretary of State in Council over provincial expenditure, according as it relates to a reserved or a transferred subject. With regard to transferred subjects there are statutory rules governing the powers of expenditure of local governments, *vide* Appendix 15. The general powers of superintendence, direction and control vested in the Secretary of State over local governments can be exercised freely in regard to reserved subjects only, but in regard to transferred subjects such powers have been restricted under the rules framed under section 19 A of the Government of India Act and can be exercised only for the purposes specified in those rules.

As will be noticed, the rules in Appendix 15 are of a very simple character—compared with the rules governing expenditure on reserved subjects given in Appendix 16—and relate mostly to public appointments and purchases of stores. Patronage is apparently regarded as a weak point of democratic control. There are further statutory checks on the exercise of this power by Ministers, as will appear later on.

Reserved subjects.—With regard to reserved subjects, the control of the Secretary of State in Council is of a different and a stricter character, though much relaxed as compared with the past. Here there is no *divestment* of responsibility, but only a *delegation* of powers, which does not remove ultimate responsibility from the original authority.

The rules governing expenditure on reserved subjects will be found in Appendix 16. They refer to another set of rules framed by the Secretary of State in Council under section 96 B (2) of the Government of India Act, known as the Fundamental Rules, which regulate the pay and allowances, leave, and foreign service conditions of the civil services in India. The control of the Secretary of State in Council over local governments in regard to expenditure on provincial reserved subjects is principally exercised through these two sets of rules.

Questions of interpretation of the rules governing expenditure on reserved as well as transferred subjects are referred daily to the Audit Department, on which is placed the responsibility of seeing that no expenditure which requires the sanction of the Secretary of State in Council is incurred without such sanction.

In order to avoid conflicts with the provincial legislatures, it has been provided that, in cases where the sanction of the Secretary of State in Council is required to any expenditure on a transferred or a reserved subject, such sanction should ordinarily be obtained before the Legislative Council is asked to vote supply to meet the expenditure.

Control by the Governor-General in Council.

The control vested in the Governor-General in Council over provincial expenditure is now lighter

than before. In the old days the higher status of the Governor-General in Council was recognised in the matter of sanctions to expenditure as well. Provincial Governments exercised smaller powers than the Government of India. But this is no longer the case. Cases of expenditure on provincial subjects which are beyond the competence of local governments to sanction have, as a rule, to be referred to the Secretary of State in Council.

Transferred subjects.—In regard to transferred subjects, the Governor-General in Council has, like the Secretary of State in Council, formally divested himself, subject to certain safeguards and restrictions, of his statutory powers of "superintendence, direction and control" over local governments, *vide* Devolution Rule 49.

Reserved subjects.—In regard to expenditure on reserved subjects the Government of India still legally possess powers of "superintendence, direction and control" over local governments, but in practice they rarely exercise those powers in controlling by executive orders provincial expenditure which is within the powers of sanction of local governments. All applications* from local governments for the sanction of the Secretary of State in Council have, under the rules, to be addressed to the Governor-General in Council, who is empowered, in certain cases, to sanction the expenditure on behalf of the Secretary of State in Council. The

* This remark applies to applications for expenditure on transferred subjects as well, *vide* Rule 2, Appendix 15.

Governor-General in Council has, however, no authority to reject the proposal. Even if he disagrees he has to forward the application with his recommendations and with such further explanations of the proposal as he may have seen fit to require from the local government, for the orders of the Secretary of State in Council.

It has further been ruled* that it is not permissible, owing to the complete separation of provincial from central finance, to incur expenditure from central revenues on provincial subjects or to make assignments from central to provincial revenues for expenditure on a provincial subject, except in so far as such expenditure may be necessary in connection with matters covered by item 52, (*viz.*, matters pertaining to a central subject in respect of which powers have been conferred by or under any law upon a local Government) in Part II of Schedule I to the Devolution Rules or represents payments for services rendered by the local government.

Agency subjects.—There is, however, one class of expenditure in relation to which the Government of India exercises higher powers than, and a certain measure of control over, local governments, *viz.*, in relation to what are known as 'agency' subjects. The rules governing the powers of expenditure of local governments in regard to such subjects are reproduced in Appendix 17. In regard to such

* The converse, however, is not true. A provincial government may spend money upon a central subject.

subjects, local governments exercise only such powers as have been *delegated to them by the Government of India.* It will be seen that while in regard to provincial subjects local governments can create permanent appointments up to Rs. 1,200 a month, in regard to agency subjects their powers are limited to Rs. 500 a month.

Control by the Finance Department of the Province.

Internal control over provincial expenditure, both reserved and transferred, is exercised by the Finance Department which is a reserved department in every province. There is statutory provision for such control in Devolution Rules 37 to 45, which regulate the functions of the provincial Finance Department. Some of the functions of the Finance Department in relation to expenditure have already been stated in connection with the preparation of the budget. It examines and advises on all schemes of new expenditure for which it is proposed to make provision in the estimates, and is empowered to decline to provide in the estimates for any scheme which has not been so examined. Expenditure which has not been provided for in the budget cannot be submitted for the consideration of the local government or the Legislative Council, nor can any orders giving effect to such proposals issue, without a previous reference to the Finance Department.

As regards recurring expenditure, such as creation of fresh appointments, addition to pay and

allowances of Government servants, the Finance Department has a firm footing. Under section 96 D (2) of the Government of India Act, the Finance Department is entitled to be consulted before any office is added to or withdrawn from the public service, or a variation made in the emoluments of any such post. This provision is repeated in Devolution Rule 40. Devolution Rule 41 prohibits the grant of any allowance or special or personal pay without previous consultation with the Finance Department. Similar consultation is necessary, under Devolution Rule 39, for expenditure on a non-votable item which is in excess of the sanctioned budget provision for that item. As such excesses do not come within the cognisance of the Public Accounts Committee or the Legislative Council this rule appropriately reserves to the Finance Department the power to increase the grant under a non-votable head.

The Finance Department also exercises control over provincial expenditure through its powers of re-appropriation of funds. A vote as a whole cannot be exceeded without the sanction of the Legislative Council, but within the vote changes may be made. The Finance Department has power, under Devolution Rule 38 (*a*), to sanction re-appropriations within a grant from one major, minor or subordinate head to another. All re-appropriations involving a recurring liability have also to be referred to the Finance Department. This is a further

check on the growth of recurring expenditure, otherwise fortuitous savings in grants in any one financial year may, if utilized for recurring expenditure, be found to cause grave embarrassment to the finances in future years.

In the discharge of these duties the Finance Department is assisted by the Audit Department, which keeps it constantly informed of the progress of expenditure from month to month and submits reports if it appears likely that the budget provision under any particular head will be exceeded. The Finance Department then takes the matter up with the Administrative Department concerned and sees that things are put right, either by stopping the expenditure or by providing the requisite funds for it by re-appropriation from some other head under the control of that Department, or, if that is not possible, by making other funds available. Further, it receives reports from the Audit Department of important financial irregularities brought to notice during the course of audit, when it takes steps to get the matter regularised.

It may be stated that in the discharge of all these duties the Finance Department acts merely as an advisory body. In the words of the Government of India Memorandum prepared for the Feetham Committee :—

"The function of the Finance Department in truth is not an over-riding power. It is not a body that either dictates or vetoes policy. It

watches and advises on the financial provisions which are needed to give effect to policy. It criticises proposals and can ask for further consideration. It points out defects in methods of assessment and collection; it can demand justification for new expenditure; it can challenge the necessity for spending so much money to secure a given object. But in the last resort administrative considerations must prevail. If there is a dispute regarding expenditure on a reserved subject, the Finance Member may urge that it is wrong or wasteful or that it will entail fresh taxation. But he can be overruled by the Governor in Council. If the dispute relates to expenditure on a transferred subject, the Finance Department may similarly expostulate. But the Minister in charge of the particular subject can overrule it and its objections, taking the full responsibility for so doing. In England, he would, in theory, have to get the Cabinet to endorse his view in such a case; in an Indian province he would need only the concurrence of the Governor."

Control by the Audit Department.

This has been dealt with already in the chapter on Audit of Accounts, to which a reference may be made.

CHAPTER 16.

Control over Revenue, including Taxation.

General Position before the Reforms.—Prior to the Reforms, the provinces had, paradoxical as it may sound, no sources of provincial revenue. The provincial governments were denied 'any inherent legal right to the revenues which they raised' (para. 104, Montagu-Chelmsford Report). All the revenue collected in the provinces was held to belong to the Government of India, and the provincial governments, in spending the revenues allotted to them, were treated merely as the agents of the Government of India. In short, the finances of India were arranged on the unitary and not on the federal principle. The Government of India also completely controlled all taxation imposed throughout British India, apart from the local taxes raised by local bodies. When the financial settlement of 1871 was made with the provinces, no question of entrusting any powers to provincial governments over revenue or taxation arose, in as much as no revenue producing departments were made over at the time. In 1877, however, when certain heads of revenue were included in the scheme of decentralisation, a condition was imposed that provincial governments were neither to impose additional

taxation nor to make any fundamental change in the existing revenue system, without the previous sanction of the Government of India. In certain cases, such as excise, stamps and court fees, provincial governments were permitted by statute to alter the rates of duty, but their discretion in this behalf was considerably restricted by executive directions. The Governments of Madras and Bombay, however, had a fairly free hand in the matter of fresh land revenue settlements. Receipts from forests and registration were also to a certain extent regulated by provincial governments, but in respect of other sources of revenue, even where their discretion was not hampered by statute or distinct executive regulations, they were bound to follow the policy laid down by the Government of India, and it was merely in respect of the detailed application of those principles that the provincial governments had any discretion. In cases where resort to legislation was required for some fresh taxation in a province, the Government of India controlled the provincial governments by means of 'instructions' (issued presumably under section 45 of the Government of India Act) which required all projects of laws to be approved by the Secretary of State, prior to their introduction in the provincial Legislative Council. The Decentralisation Commission considered the question of relaxing the restrictions imposed on provincial governments, but did not recommend any change.

After the Reforms.—In their Resolution No. 27-F, dated the 18th May 1912, the Government of India recognised that the power to impose taxation was a necessary corollary of a fully decentralised system of finance, and that financial autonomy for the provinces, if and when it arose, must carry with it the power of taxation. It was quite obvious that if provincial governments were to be given separate resources and were to be financially self-dependent they would have to be given some power to raise additional revenue, to enable them to keep pace with the growing needs of the administration. When, therefore, the policy of conferring on the provinces 'the largest measure of independence of the Government of India' in provincial matters was proposed in the Joint Report, a change became inevitable. It was proposed that the best means of enlarging the taxing powers of local governments would be "to schedule certain subjects of taxation as reserved for the provinces, and to retain the residuary powers in the hands of the Government of India", (para. 210, Joint Report). This recommendation has been given effect to in the Government of India Act, 1919, and the rules framed thereunder.

Position with regard to Taxation.—As regards taxation, section 80 A (3) of the Government of India Act enacts as follows:—

"The local legislature of any province may not, without the previous sanction of the Governor-General, make or take into consideration any law—

(*a*) imposing or authorising the imposition of any new tax unless the tax is a tax scheduled as exempted from this provision by rules made under this Act; or

(*b*) affecting the public debt of India or the customs duties, or any other tax or duty for the time being in force and imposed by the authority of the Governor-General in Council for the general purposes of the government of India, provided that the imposition or alteration of a tax scheduled as aforesaid shall not be deemed to affect any such tax or duty."

As regards the right of private members to introduce taxation bills, section 80 C of the Act, provides as follows:—

"It shall not be lawful for any member of any local Legislative Council, to introduce, without the previous sanction of the Governor, Lieutenant-Governor, or Chief Commissioner, any measure affecting the public revenues of a province, or imposing any charge on those revenues."

The rules framed under section 80 A (3) (*a*) of the Act are called the Scheduled Taxes Rules, clause (2) of which runs as follows:—

"The Legislative Council of a province may, without the previous sanction of the Governor-General, make and take into consideration any law imposing for the purposes of the local government, any tax included in Schedule 1 of these rules."

Schedule 1 is as below:—

(1) A tax on land put to uses other than agriculture.

(2) A tax on succession or on acquisition by survivorship in a joint family.

(3) A tax on any form of betting or gambling permitted by law.

(4) A tax on advertisements.

(5) A tax on amusements.

(6) A tax on any specified luxury.

(7) A registration fee.

(8) A stamp duty other than duties of which the amount is fixed by Indian legislation.

The Finance Department is entrusted with the duty of examining and reporting on all proposals for the increase or reduction of provincial taxation, whether arising in reserved or transferred departments; and all such proposals have to be considered jointly by both the halves of the Government, under Devolution Rule 30*, though the ultimate decision is arrived at by the authority responsible for the administration of the subject to which the proposal relates.

CONTROL BY THE LEGISLATIVE COUNCIL.

The control of the Legislative Council over the revenue proposals in the budget is derived from its legislative powers. So long as no change in the law is proposed by Government, no motion can be moved under the rules on such proposals and they can be only generally discussed during the first stage of the budget debate. Some provinces have adopted the practice of the Central Legislature in making fresh taxation measures limited in their duration, so as to bring the revenue and taxation policy of the Government under the control of the legislature. The statutory limitations on the power of the legislature with regard to taxation have already been given in the preceding paragraphs. Just as in the

* The same remarks apply *mutatis mutandis* to proposals for borrowing.

case of the Central Legislature*, non-official members of the local Legislative Council have no power to propose measures tending to increase the burden of taxation on the people, when such an increase is not considered necessary by the local government. The revenue in the provinces is realised largely under laws (or rules having the force of law) of a permanent character and, consequently, the legislature has a comparatively limited field for intervention and control.

POSITION WITH REGARD TO REVENUE.

We will now pass in rapid review the main heads of revenue in the provinces, indicating at the same time, wherever necessary, the extent of the control over the local government by the Governor-General in Council or the provincial legislature, in regard to each such head :—

(*i*) *Land Revenue*.—This item is the sheet anchor of provincial finance. The Provincial Governments have a wide discretion in varying the rates of assessment during a settlement. But it is all a matter of executive regulation and the land revenue law has not to receive the sanction of the legislature at all. The Joint Select Committee expressed the opinion that " the imposition of new burdens should be gradually brought more within the purview of the Legislature", and that " the process of revising the land revenue assessments ought to be brought under closer regulation by statute as soon as possi-

* *Vide* remarks on the subject in the chapter on the voting of the budget.

ble". It is understood that this question is already under consideration in several provinces.

(*ii*) *Excise.*—Excise* revenue is derived from intoxicating liquors, hemp drugs and opium consumed in the country and is levied in the form of duty on manufacture and fees for sale licenses. The systems of excise administration and excise taxation are very complicated and differ greatly in different parts of India. There are different Excise Acts for each province and in some cases provincial Excise Acts have also been passed by the Central Legislature. The Acts allow considerable discretion to the executive government in varying the excise duties. Excise is a transferred subject, except in Assam, and is in charge of Ministers responsible to the legislature. This source of revenue will diminish in importance in the future, as the temperance movement gathers strength, which it shows signs of doing.

(*iii*) *Stamps.*—Stamp revenue is derived from two main heads, judicial or court fee stamps and non-judicial or revenue stamps. The former revenue is realised under the Court Fees Act of 1870—since revised in nearly all the provinces—and the latter under the Indian Stamp Act of 1899†, also revised in several provinces, since then.

Under the Reforms, non-judicial stamps have been declared provincial subjects, but are subject

* This item has nothing to do with the cotton excise duty, which is credited to the head Customs and is a purely central receipt.

† Amended by the Indian Stamp (Amendment) Act, 1923, passed by the central legislature. For the reason of the legislation by the central legislature, see the succeeding paragraph.

to legislation by the Indian Legislature. Judicial stamps are also provincial subjects, but are subject to legislation by the Indian Legislature as regards the amount of court fees levied in relation to suits and proceedings in the High Courts under their original jurisdiction. The previous sanction of the Governor-General under section 80 A (3) (*f*) of the Government of India Act is necessary for the introduction by the local Government in the local legislature of any measure proposing to vary the rates of duties on non-judicial stamps, and on judicial stamps to the extent they are subject to legislation by the Indian Legislature. As legislation is required for an increase of duty this head of revenue would appear to be under the control of the Legislative Councils.

The sale-proceeds of unified postage and revenue stamps are credited to the central head "Posts and Telegraphs", but a fixed amount based upon the net profit from the sales of unified stamps used for revenue purposes over a period of years is transferred annually from this head to the credit of each province. The revision of the amounts thus transferred is under consideration, so as to give the provinces the benefit of the increased duty levied under the Indian Stamp (Amendment) Act, 1923.

(*iv*) *Registration*.—The revenue derived from this source is governed by the Indian Registration Act of 1908, which is an Act of the Indian Legislature.

Revenue is derived from fees charged for the registration of documents and instruments. Sec-

tion 78 of the Indian Registration Act authorises the local Government to fix registration fees, subject to the approval of the Governor-General in Council. Under the Reforms, registration fees are included in the scheduled taxes and would, therefore, come within the cognisance of the provincial legislature.

(*v*) *Irrigation.*—With regard to irrigation it has already been explained in detail in a separate chapter that provincial governments have considerable powers of varying both the water rate and the 'water advantage' rate without bringing the matter before the Legislative Council. The United Provinces Government recently appointed a committee to consider how the regulation of irrigation rates can best be brought within the purview of the local legislative council. Under the Reforms, irrigation is a provincial subject, subject to legislation by the Indian Legislature with regard to matters of inter-provincial concern or affecting the relations of a province with any other territory. It would, therefore, appear that ordinarily the various Canal Acts applicable to the provinces can be altered by the local legislatures without the previous sanction of the Governor-General. For other remarks under this head see the chapter on irrigation finance.

(*vi*) *Forests.*—The Forest Department is of a commercial character and the revenue obtained from the sale of forest produce is governed by the prevailing market conditions and not by rates arbitrarily put up by forest officers.

Recent taxation in the provinces.—The powers newly conferred on the provinces have already been exercised, as nearly all of them have from the start been faced with heavy deficits in their budgets. A tax on entertainments has been levied in Bengal and Bombay; stamp duties have been enhanced in Madras, Bengal and the United Provinces; a tax on motor vehicles has been introduced in the United Provinces; court fees have been enhanced in nearly every province; and registration fees have been raised in Madras. Even with these enhanced taxes all local governments have not been able to balance their budgets. The complaint made in some provinces is that the provincial sources of revenue are inelastic and incapable of expansion, whereas the Central Government has reserved to itself all sources of revenue which grow with the growth of wealth and prosperity of the country such as Customs, Income-tax and Railways. The industrial provinces, such as Bombay and Bengal, claim a larger share of the income-tax receipts than they enjoy under Devolution Rule 15.

CHAPTER 17.

Control over Borrowing.

Position prior to the Reforms.—Prior to the Reforms, local governments were not permitted to raise loans in the open market. Provincial loans, though not legally prohibited, were in practice severely discouraged, though such a power was not denied to certain local bodies, such as Presidency Corporations, Port Trusts, etc. The grounds urged in support of such a practice broadly were:—

(*i*) provincial loans would compete with Imperial loans, in view of the fact that the money market is narrow, the period of cheap money confined to a few months of the year and the loan business mainly in the hands of a few large banks;

(*ii*) while Imperial loans were generally raised for productive purposes, provincial loans would be generally required for purposes not directly remunerative;

(*iii*) local governments would have to pay more for their loans than the Government of India and therefore it would be cheaper for the latter to conduct all borrowing operations.

After the Reforms.—In their resolution, dated May 18, 1912, the Government of India, however, had stated that 'the grant of independent borrowing powers to local governments should be deferred

until a more distinct separation has taken place between the finances of the provincial and those of the central authority'. It was, therefore, inevitable when a separation was recommended in the Joint Report, that definite proposals should be made in the direction of conferring power on provincial governments to borrow money. The provincialisation of irrigation works, on which large capital expenditure was necessary, further rendered it inevitable that provincial borrowing should be allowed, otherwise provincial governments would have been faced with the liability to incur such expenditure, without having the means to finance it. Before, however, any such recommendation could be given effect to, it was necessary to confer definite statutory powers on provincial governments to raise money on the security of the revenues allocated to them. This power they could be said to have possessed under section 30 of the old Government of India Act, but as the matter was not free from doubt clause (1*a*) was added to section 30 definitely conferring such powers and removing any ambiguity that might have been held to exist. The clause referred to is as follows:—

> "A local government may on behalf and in the name of the Secretary of State in Council raise money on the security of revenues allocated to it under this Act, and make proper assurances for that purpose, and rules made under this Act may provide for the conditions under which this power shall be exercisable."

The Local Government Borrowing Rules.—The rules referred to in the above clause have been framed

and are called the Local Government Borrowing Rules. They authorise local governments to raise loans in the open market, both in India as well as outside it, for specific purposes and with specific sanction in each case. Rule 2 of the above rules lays down that a local government may raise loans on the security of the revenues allocated to it for any of the following purposes :—

(*a*) to meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that—

- (*i*) the proposed expenditure is so large that it cannot reasonably be met from current revenues ; and
- (*ii*) if the project appears to the Governor-General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortisation of the debt ;

(*b*) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from loan funds ;

(*c*) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity ;

(*d*) for the financing of the Provincial Loan Account*; and

(*e*) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advances made by the Governor-General in Council.

The scope of provisions (*i*) and (*ii*) is of so wide a nature that loan funds can now be employed in connection with very many more subjects than in the past (when expenditure from loan funds was allowed for directly remunerative works only) and accordingly a number of new capital heads have been opened in the provincial accounts and estimates. Thus, apart from heads concerned with irrigation projects, capital expenditure on which was even prior to the Reforms chargeable to loan funds, heads have been opened in the capital section of the accounts for expenditure undertaken from loan funds on :—

Forest capital outlay;

Capital outlay on improvements of public health;

Capital outlay on civil works; and

Capital outlay on other provincial works not charged to revenue.

* This is the name given to the account of loans and advances made by each provincial government for any of the following purposes:—(*a*) Advances to cultivators under the Land Improvement Loans Act, the Agriculturists' Loans Act, or any other Acts; loans under the Co-operative Credit Societies Act, loans under the Burma Fisheries Act; (*b*) Loans to Indian States and loans to landlords and notabilities apart from the provisions of any law; (*c*) Loans to Municipalities, District or Local Boards, under the Local Authorities Loans Act or any other Act; (*d*) Advances under special laws; (*e*) Miscellaneous loans and advances. Prior to the Reforms this account was financed by the Government of India, but now the provinces finance their own loan transactions.

As these heads are not taken into account in arriving at a surplus or deficit and as the line of demarcation between capital and revenue is at best a very thin one it will be seen how difficult it is to say whether the surplus or deficit, now shown in the provincial estimates, is real or fictitious (dependent on account classification) or to compare current with previous years' figures.

For loans to be raised by local governments in India the sanction of the Government of India is necessary. For similar loans outside India the sanction of the Secretary of State in Council must be obtained. The sanctioning authority has the right to satisfy itself regarding the amount and the terms of the issue. All proposals for borrowing, in whatever department arising, come within the purview of the provincial finance department, which examines and reports on them and takes the necessary steps for the raising of such loans as have been duly authorised. Among the provincial loans raised under these rules mention may be made of the Bombay Development Loan, the United Provinces Development Loan and the Punjab Government Loan.

Advances to Local Governments by the Government of India.

In addition to borrowing in the open market, provincial governments receive advances from the Government of India. Such advances are usually taken to meet capital expenditure on irrigation

works handed over to the management of local governments. Before any such advance is sanctioned the local government has to make a report to the Government of India as to the objects to which the advance is to be applied as also how it proposes to repay it. The rate of interest and the terms of repayment are determined by the Government of India in each case.

For further remarks with regard to provincial borrowing reference is invited to the concluding portion of the chapter on national debt.

CHAPTER 18.

CONTROL OVER CASH BALANCES.

Position prior to the Reforms.—Prior to the Reforms, there was a standing order of the Government of India that local governments must, apart from famine requirements, retain minimum balances of the following amounts at their credit with the Government of India :—

	Rs.
Madras, Bombay, Bengal and the United Provinces	20 lakhs each.
Burma, Bihar and Orissa	12 ,, ,,
Punjab, Central Provinces and Assam	10 ,, ,,

Further, local governments could not budget for a deficit, unless they satisfied the Government of India that the excess expenditure was exceptional and non-recurring and also, if the deficit involved a reduction of the provincial balance below the prescribed minimum, that suitable arrangements would be made for the restoration of the minimum. For this control there were two lines of justification. "In the first place, the central authority is the banker of all public funds and has to take precautions against withdrawals which may disturb its often fine-drawn calculations of ways and means.

In the second place, it had to be vigilant against action by a local government which might break down the provincial settlement and leave it a claimant for help from central revenues." (Extract from Government of India, Finance Department Memorandum for Feetham Committee.)

Position after the Reforms.—Since the introduction of the Reforms, however, there has been a great relaxation of control in this matter. The restriction as regards minimum balances has been abolished, so also the restriction as regards budgetting for a deficit. But the Government of India have the power, under Devolution Rule 21, to fix the closing balance of a province at a specified figure, which the local government is not at liberty to exceed. Subject, however, to this power, local governments are "at liberty to draw on their balances, provided that notice of the amount which they propose to draw during the ensuing financial year is given to the Governor-General in Council before such date in each year as the Governor-General in Council may by order fix".

When a province has overdrawn its balance at the end of a year it has to pay interest to the Central Government, but no interest is charged on temporary overdrawals refunded before the end of the year.

Treasury Orders.

The local governments have, however, still to keep their balances with the Government of India

and are not permitted to make their own arrangements in the matter. All moneys derived from sources of provincial revenue are, under Devolution Rule 16, paid into the public account of which the Governor-General in Council is the custodian. The procedure as regards the payment of moneys into, and the withdrawal, transfer and disbursement of moneys from, the public account and for the custody of moneys standing in the account, is governed by what are known as 'Treasury Orders', promulgated in Government of India, Finance Department No. 116-A, dated the 9th February 1922. These orders are issued under Rule 16 of the Devolution Rules and are binding on the local governments.

THE FAMINE INSURANCE FUND.

Another statutory restriction on the financial powers of local governments is the provision they are required, under Devolution Rule 29 and the schedule thereunder, to make each year for a famine insurance fund, which is meant to provide for a 'rainless' day. The balances of this fund are separate from the general balances of a local government, though both are kept in the custody of the Government of India. The main features of the fund are as follows :—

(*i*) A specified amount—which differs for each province and is called the annual assignment—has to be provided each year in the budget until the accumulated total is not less than six times the amount of the annual assignment.

(*ii*) The balances in the fund earn interest at the average rate paid for treasury bills during the year by the Government of India.

(*iii*) The balances of the fund may be spent for any of the following purposes :—

(*a*) relief of famine ;

(*b*) construction of protective irrigation works or other works for the prevention of famine ;

(*c*) grant of loans to cultivators, either under the Agriculturists' Loans Act, 1884, or for relief purposes.

INTEREST ON PROVINCIAL BALANCES.

Under Devolution Rule 22, a local government is entitled to interest from the Government of India on such amounts as it is not permitted to draw from its general balance, after it has given due notice (as required by Devolution Rule 21) of the proposed withdrawal to the Governor-General in Council. On their undrawn general balances, however, local governments receive no interest. This position is not acquiesced in by them. They feel that the existing practice is unjust and they see in its reversal a chance of improving their own finances without resort to fresh taxation. To quote the *Times of India* on the subject :—"At present it pays the Bombay Government better to invest money in the famine insurance fund,........ than to increase its reserve balances : there is in fact lacking one of the most potent inducements to put money by for bad times. The Municipality, the Port Trust and

the Improvement Trust are at liberty to invest their balances with any approved bank, but the local Government is denied that liberty and is proportionately poorer".

It is understood that the question of payment of interest to local governments on their general balances is under the consideration of the Government of India.

CHAPTER 19.

CONTROL OVER ACCOUNTS AND AUDIT.

The Indian Audit and Accounts Service.—The Indian Audit and Accounts Service is a central subject. It deals with the compilation and audit of accounts of Government transactions in India. The words 'Government transactions' cover the transactions of both the Central and the Local Governments. The provincial accounts are thus compiled and audited by a staff appointed, paid for and controlled by the Government of India.

*Position of Local Governments as regards Accounts**.—Rule 18 of the Auditor-General's Rules lays the responsibility for the compilation of the Finance and Revenue Accounts of India on the Auditor-General. The form of these accounts is prescribed by the Secretary of State in Council and determines the form in which accounts—both of the Central and provincial governments—are maintained by the Audit Department. Under Rule 22 of the same Rules the Auditor-General determines the form in which officers rendering accounts to the Indian Audit Department are to render such accounts and maintain the initial accounts from which the accounts so rendered are compiled.

* The position described here may change if, as a result of the investigations of the Committee recently appointed, it is decided to separate accounts from audit.

The Account Department in each major province has at its head an Accountant-General, who is an officer under the control of the Government of India. The local government is entitled to receive from the Accountant-General a monthly account of its transactions in such form and detail as it may require. This account also shows the opening and closing balances of the local government for each month, as available at the time. The Accountant-General is also expected to supply to the local government any information required by them which can be derived from the accounts maintained in his office. The local government has, however, no power to determine the classification of an item under major or minor heads in the public account, such power having been reserved to the Auditor-General, under Rule 20 of the Auditor-General's Rules.

The accounts dealt with by the Accountant-General are, however, received from the district treasuries in charge of Treasury Officers who are members of the Provincial Civil Service and are subject to the disciplinary and administrative control of the local government. The Treasury Officers maintain the initial accounts in the forms prescribed by the Auditor-General and are, in account and audit matters, bound to carry out the instructions issued to them by the Accountant-General. With regard, however, to accounts which are not subject to audit by the Indian Audit and Accounts Service such as accounts of receipts of land revenue, excise or

stamps, etc., local governments have a fairly free hand, subject to the form of the general accounts remaining unaffected; and the duty of seeing that suitable accounts of such transactions are maintained by the departments concerned is placed under Devolution Rule 37 (*e*) on the Finance Department in each province.

Position as regards Audit.—As regards audit, the position of the local governments is more restricted. The Auditor-General is the final audit authority in India and in the discharge of their audit duties the officers of the Indian Audit and Accounts Service are not subject in any manner to the control of the local government concerned. The provincial Accountant-General is the officer primarily responsible for the audit of the transactions of the local government and it has been ruled that no officer subordinate to the local government may overrule the Accountant-General so far as adjustment of audit objections is concerned. Even the local government, if it does not agree with the view taken by the Accountant-General in any such matter, has not the power to overrule him, but has to refer the question to the Auditor-General, whose decision is final. In certain cases*, specified in the proviso to Rule 14 of the Auditor-General's Rules, the Accountant-General or the Auditor-General, as the case may be, is, however, required to

*The cases mentioned in the proviso are:—(*i*) where the objection is based solely on the canons of financial propriety, and (*ii*) where recovery of amounts held under objection is ordered to be foregone.

withdraw an audit objection if the Finance Department of the local government states that the case will be reported to the Committee on Public Accounts.

Position as regards Local Fund Audit.—Local Fund Audit, that is to say, the audit by Government agency of income and expenditure controlled by local bodies, is, however, a provincial reserved subject. Local governments are at liberty to employ their own staff for doing this work, but in several provinces* the Local Fund Audit Department is still staffed by officers of the Indian Audit and Accounts Service and is subject to the control of the provincial Accountant-General. The major portion of the expenditure on the Local Fund Audit Department is borne by the local government which recovers a certain portion thereof in the shape of fees for audit from the local bodies concerned.

* In Madras, the United Provinces and Assam the Examiner of Local Fund Accounts works directly under the orders of the local government.

APPENDIX No. 1.

Rules governing the expenditure powers of the Government of India.

Resolution from the Government of India, Finance Department, No. 1448-E.A., dated 29th September 1922, as modified by Resolution No. 518-Ex., dated the 2nd March 1923 :—

" His Majesty's Secretary of State for India in Council has been pleased to make the rules appended to this Resolution, defining the classes of expenditure from central revenues upon subjects other than provincial subjects which the Governor-General in Council may not sanction without the previous consent of the Secretary of State in Council. These rules supersede all previous rules of a similar nature and, subject to their observance, orders regarding specific cases of expenditure passed by the Secretary of State in Council under regulations previously in force will no longer be binding.

" 2. If the sanction of the Secretary of State in Council is required by these rules to any expenditure, such sanction should ordinarily be obtained before the Legislative Assembly is asked to vote supply to meet the expenditure. The Governor-General in Council may depart from this rule in cases of extreme urgency, where the time available is so short that sanction cannot be obtained by telegraph ; but in such a case a statement showing all schemes for which supply has been asked before sanction has been obtained must be submitted to the Secretary of State as soon as possible after the presentation of the demands to the Assembly.

" 3. The Governor-General in Council may sanction an excess over an estimate which has, prior to the introduction of these rules, received the sanction of the Secretary of State in Council if the total cost of the estimate, as increased by the excess, is within the powers of sanction conferred upon the Governor-General in Council by these rules ; and may sanction the extension of a temporary post which has received similar

sanction if he would, under these rules, be competent to sanction the creation of such a post for the full term as extended.

"4. Subject to the observance of these rules and to the provisions of Section 67A of the Government of India Act, the Governor-General in Council has full power to sanction expenditure from central revenues upon subjects other than provincial* subjects and, with the previous consent of the Finance Department, to delegate such power upon such conditions as he may think fit either to any officer subordinate to him or to a local Government acting as his agent in relation to a central subject. Any sanction given under this rule will remain valid for the specified period for which it is given, subject in the case of voted expenditure to the voting of supply in each year. Orders of delegation passed under this rule may contain a provision for redelegation by the authority to which the powers are delegated."

Accompaniment to the above Resolution.

Rules relating to expenditure by the Government of India on subjects other than provincial.

The previous sanction of the Secretary of State in Council is necessary :—

(1) To the creation of any new or the abolition of any existing permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of one of the services named in the Schedule, or to the increase or reduction of the cadre of any of those services or of a service ordinarily filled by officers holding the King's Commission.

(2) To the creation of a permanent post on a maximum rate of pay exceeding Rs. 1,200 a month, or the increase of the maximum pay of a sanctioned permanent post to an amount exceeding Rs. 1,200 a month.

**Note.*—Since the enactment of the Government of India Act, 1919, and of the Devolution Rules it is not permissible to incur expenditure from central revenues on provincial subjects or to make assignments from central to provincial revenues for expenditure on a provincial subject except in so far as such expenditure may be necessary in connection with matters covered by item 52 in Part II of Schedule I to the Devolution Rules or represents payment for services rendered by the Local Government.

(3) To the creation of a temporary post on pay exceeding Rs. 4,000 a month, or the extension beyond a period of two years (or, in the case of a post for settlement operations, of five years) of a temporary post or deputation on pay exceeding Rs. 1,200 a month.

(4) To the grant to any Government servant or to the family or other dependents of any deceased Government servant of an allowance, pension or gratuity which is not admissible under rules made or for the time being in force under section 96 B of the Government of India Act, or under Army Regulations, India, except in the following cases :—

(*a*) compassionate gratuities to the families of Government servants left in indigent circumstances, subject to such annual limits as the Secretary of State in Council may prescribe ; and

(*b*) pensions or gratuities to Government servants wounded or otherwise injured while employed in Government service, or to the families of Government servants dying as the result of wounds or injuries sustained while employed in such service, granted in accordance with such rules as have been or may be laid down by the Secretary of State in Council in this behalf.

(5) To any expenditure on a measure costing more than Rs. 5,00,000 (initial plus one year's recurring) and involving outlay chargeable to the Army or Marine Estimates.

(6) (*a*) To any expenditure on the inception of a Military Works project which is estimated to cost, or forms part of a scheme which is estimated to cost, more than Rs. 10,00,000.

(*b*) To any expenditure on a Military Works project in excess of the original sanctioned estimate, if—

(*i*) the excess is more than 10 per cent. of the original sanctioned estimate, and the estimated cost of the project thereby becomes more than Rs. 10,00,000.

(*ii*) The original estimate has been sanctioned by the Secretary of State, and the excess is more than

10 per cent. of that estimate or more than Rs. 10,00,000.

(*c*) To any expenditure on a Military Works project, in excess of a revised or completion estimate sanctioned by the Secretary of State.

Provided that, for the purposes of clauses (*b*) (*ii*) and (*c*) of the rule, if any section accounting for 5 per cent. or more of the estimated cost of a project sanctioned by the Secretary of State is abandoned the estimated cost of the Works in that section shall be excluded from the total sanctioned estimate of the project for the purpose of determining whether the Secretary of State's sanction is necessary.

(7) To any expenditure on the purchase of imported stores or stationery, otherwise than in accordance with such rules as may be made in this behalf by the Secretary of State in Council.

(8) To any expenditure, otherwise than in accordance with such rules as have been or may be laid down in this behalf by the Secretary of State in Council, upon—

(*a*) the erection, alteration, furnishing, or equipment of a church; or a grant-in-aid towards the erection, alteration, furnishing or equipment of a church not wholly constructed out of public funds ; or

(*b*) the provision of additions to the list of special saloon and inspection railway carriages reserved for the use of high officials ; or

(*c*) the staff, household, and contract allowances, of the residences and furniture provided for the use of the Governor-General ; or

(*d*) railways.

2. The foregoing rules do not apply to expenditure in time of war with a view to its prosecution. The Government of India have full powers with regard to such expenditure, subject only to the general control of war operations which is exercised by the Secretary of State for India in consultation with His Majesty's Government ; to the necessity of obtaining the sanction of the Secretary of State in Council to really important special measures required to carry out those operations, where in the Judgment of the Government of India time permits a previous

reference to him and to the obligation to keep him as fully informed as circumstances allow of their important actions.

The Schedule.

(1) Indian Civil Service.
(2) Indian Police Service.
(3) Indian Forest Service.
(4) Indian Educational Service.
(5) Indian Agricultural Service.
(6) Indian Service of Engineers.
(7) Indian Veterinary Service.
(8) Indian Medical Service.
(9) Imperial Customs Service.
(10) Indian Audit and Accounts Service (Civil & Military)
(11) Superintendents and Class I of the Survey of India Department.
(12) The Superior Staff of the Geological Survey of India Department.
(13) The Superior Telegraph Branch of the Posts and Telegraphs Department.
(14) The State Railway Engineering Service.
(15) The Superior Staff of the Mint and Assay Departments.
(16) The Archæological Department.
(17) Any other service declared by the Secretary of State in Council to be included in this Schedule.

APPENDIX No. 2.

Specimen form used for the preparation of estimate under a revenue head---Central (agency) subject.

BUDGET ESTIMATE—Part I.

1924-1925.

I. CUSTOMS.

——————————DIVISION.

	Date of Receipt.	Date of Despatch.
Collector		
Commissioner		
Accountant-General		

LIST OF ACCOUNTANT-GENERAL'S REFERENCES.

No.	Date.	Reply received.	No. of Reminder.	Date of Reminder.	

N.B.—This Estimate must reach the Commissioner of Customs, Salt, Opium and Excise, Bombay, in Sind by the August and the

Commissioner will forward the Departmental Budget completed so as to reach the Accountant-General and the Administrative Department of the Secretariat on the 1st *September at latest*. The spare form attached is intended for the use of the Estimating Officer.

Forwarded to the Collector of

OFFICE OF THE ACCOUNTANT-GENERAL :
BOMBAY, *August* 1923.

Assistant Accountant-General.
Assistant Accounts Officer.

I.—CUSTOMS.	Actuals, pastyear, 1922-23.	Sanctioned Estimate, currentyear, 1923-24.	Revised Estimate, current year, 1923-24.		Budget Estimate, next year, 1924-25.			Explanations of Increats or Decrease.
			Collector's.	Commissioner's.	Collector's.	Commissioner's.	Accountant General's.	
SEA CUSTOMS—IMPORTS.								
Special Duties.								
Liquors—								
(*a*) Ale, beer, porter, cider and other fermented liquors.								
(*b*) Spirits and Liquors								
(*c*) Wines								
Sugar, all sorts, excluding confectionery ..								
Tobacco								
Coal, coke and patent fuel								
Mineral oils								
Arms, Ammunition and Military stores, other than gunpowder and other arms assessable to duty at 30 per cent. *ad valorem*.								
Opium								
Cotton yarn and thread								
Cotton piece-goods—								
(*a*) Grey								
(*b*) White								
(*c*) Coloured								
Matches								
Duty at 2½ per cent.								
Machinery								
Other Articles								
Duty at 10 per cent.								
Metals—Iron and steel								
Railway plant and rolling stock								
*Other articles								

Duty at 15 per cent.								
Articles of food and drink (excluding grain and pulse other than flour and sugar and vinegar)								
Raw materials and articles mainly manufactured other than Metallic ores								
Articles wholly or mainly manufactured—								
(a) Cutlery and hardware other than electroplated ware and implements and instruments other than musical ..								
(b) Metals, other than iron and steel ..								
(c) Yarn and textile fabrics (other than cotton yarn, cotton piece-goods and silk manufactures)								
(d) All other articles wholly, or mainly manufactured Miscellaneous								
Duty at 30 per cent.								
Motor cars and cycles								
Silk piece-goods and other manufactures of silk								
Pneumatic rubber tyres and tubes								
Other articles								
Total, Sea Customs, Imports								
Carried Over ..								

* *N.B.*—Details of the amount estimated for next year, 1924-25, should be given in the column of explanations.

I.—CUSTOMS—concld.	Actuals, pastyear, 1922-23.	Sanctioned Estimate, current year, 1923-24.	Revised Estimate, current year, 1923-24.		Budget Estimate, next year, 1924-25.			Explanations of Increase or Decrease.
			Collector's	Commissioner's.	Collector's.	Commissioner's.	Accountant General's.	
Brought forward ..								
SEA CUSTOMS—EXPORTS.								
Hides and Skins raw								
Jute—								
(a) Raw								
(b) Manufactured								
Rice								
Tea								
Total, Sea Customs, Exports.								
SEA CUSTOMS—MISCELLANEOUS								
LAND CUSTOMS								
EXCISE DUTY ON COTTON MANUFACTURES ..								

Excise Duty on Motor Spirit								
Excise Duty on Kerosine								
Warehouse and Wharf Rents								
*Miscellaneous								
Deduct—								
Refunds †								† The provision for refunds and drawbacks for next year 1924-25 and the Revised Estimate for current year 1923-24 should be made on the basis of current and past actuals.
Drawbacks ..								
Total VII, Customs ..								

* *N.B.*—Details of the amounts estimated for next year, 1924-25, should be given in the column of explanations.

No.

Forwarded to the Commissioner,

Collector's Office, 1923.

Collector.

Forwarded to the Accountant-General, Bombay. / Revenue Department,

Commissioner.

APPENDIX No. 3.

Specimen form used for the preparation of estimate under an expenditure head—Part I—Central (agency) subject.

BUDGET ESTIMATE—Part I.

1924-1925.

MAJOR HEAD—1. Customs.

	Date of Receipt.	Date of Despatch.
Commissioner		
Secretary		
Accountant-General		

LIST OF REFERENCES.

No.	Date.		Reply received.	No. of Reminder.	Date of Reminder.		

N.B.—1. This Estimate in duplicate must reach the Accountant-General and the Administrative Department of Government through the Commissioner *not later than the 5th September.*

2. The original should be returned to the Accountant-General; the spare forms attached are intended for the use of the Estimating Officer.

3. This Estimate should be very carefully prepared strictly in accordance with the instructions issued in Government Finance Department Resolution No. 270-A, dated 2nd June 1922.

Forwarded to the

OFFICE OF THE ACCOUNTANT-GENERAL :
BOMBAY, *August* 1923.

Assistant Accountant-General.

Assistant Accounts Officer.

Compile.

Examiner. Superintendent.

MAJOR HEAD—	Actuals, Past year, 1922-23 (d).	Sanctioned Estimate, current year, 1923-1924 (e).	Budget Estimate, next year 1924-1925.		Revenue Department.	Finance Department.	Explanation of Increase or Decrease:
ESTABLISHMENT—							
Clerks, Probationers, etc.							
Servants							
Gatekeepers and Tallymen..							
Warfingers							
Inspectors—Preventive Department ..							
Preventive Officers							(a) Provision should be made on the basis of past actuals and should also include P. T. A. and conveyance allowance.
Appraisers							
Compilers							
Telephone Operators							
Boat Establishment							
Total Establishment							
ALLOWANCES—							
Travelling allowance (a)							(b) Details of house rent allowance should be given.
House-rent allowances (b)							
Local allowance							
Total allowances							

CONTINGENCIES—							(b) Details of the amount provided for next year should be given and the particular office for which provision is made should be mentioned.
Petty constructions and repairs							
Rents, rate and taxes (b)							(c) Note to be filled in by the Estimating Officer—
Telephone charges							Sanctioned contract grant. *Vide* Government Order No. dated Rs.
Service postage and telegrams							*Add*—unexpended balance on 31st March 1924 Rs.
Contract contingencies (c)							Total Rs.
Office expenses and Miscellaneous (b) ..							
Total Contingent Charges							
Contributions—							
GRAND TOTAL ..							

(d) Actuals may be filled in from the Local Records.
(e) The figures should be filled in by the Departmental Officer from the grants communicated by the Accountant-General in the case of fluctuating charges and from their office record in the case of Permanent Establishment and fixed charges.

No.

Forwarded to the Commissioner, $\frac{\text{Bombay.}}{\text{Karachi.}}$

Dated 1923.

Collector.

No. dated

Forwarded to the $\frac{\text{Accountant-General,}}{\text{Revenue Department,}}$ Bombay.

Commissioner.

DETAILS OF TEMPORARY ESTABLISHMENT.

No.	Designation.	Monthly Pay.	Annual Cost.	Remarks.

Signature of Head of Office.

APPENDIX No. 4.

Specimen form used in the preparation of estimate under a revenue head—Central (directly administered) subject.

BUDGET ESTIMATE—Part I.

1924-1925.

II. TAXES ON INCOME.

——————————DISTRICT.

	Date of Receipt.	Date of Despatch.
Collector		
Commissioner of Income Tax ..		
Accountant-General		

LIST OF ACCOUNTANT-GENERAL'S REFERENCES.

No.	Date.	Reply received.	No. of Reminder.	Date of Reminder.	

N.B.—1. The original estimate (in duplicate) must reach the Commissioner of Income Tax by the 20th August. The Commissioner will forward the original estimate completed so as to reach the Accountant-General on the *1st September at the latest.* The necessary spare forms are hereto attached.

2. This Estimate should be very carefully prepared strictly in accordance with the instructions issued in Government, Financial Department, Resolution No. 270, dated 2nd June 1922.

Forwarded to the Collector of
with reference to Government Order, Revenue Department, No. 13702, dated the 13th November 1917.

OFFICE OF THE ACCOUNTANT-GENERAL :
BOMBAY, *August* 1923.

Assistant Accountant-General.

Assistant Accounts Officer.

Compile.

Examiner. Superintendent.

II.—TAXES ON INCOME.	Actuals, past year, 1922-23. (a).	Sanctioned Estimate, current year, 1923-24.	Revised Estimate, current year, 1923-24.	Budget Estimate, next year, 1924-25.			Explanations of Increase or Decrease. (b).
				Collector's.	Commissioner's.	Final.	
EXCESS PROFITS DUTY—(d)							(d) A memo. giving the number of Assessees and the amount of *Excess Profits Duty* recoverable from each class should be attached to the Estimate.
Collections from Companies							
Collections from Firms							
Penalties and other Miscellaneous Receipts							
Total, Excess Profits Duty							
SUPER TAX—(c)							(c) Details of the Estimate of *Super Tax* (Revised 1923-24 and Budget 1924-25) should invariably be filled in, in the statement on page 4 of the estimate.
Collections from Individuals							
Collections from Companies							
Collections from Firms							
Collections from Hindu Undivided Families							
Penalties and other Miscellaneous Receipts							
Total ..							
Deduct—Refunds (e)							For Note (e) see next page.
Total, Super Tax							

II.—TAXES ON INCOME—Concld.	Actuals, past year, 1922-23 (a).	Sanctioned Estimate, current year, 1923-24.	Revised Estimate, current year, 1923-24.	Budget Estimate, next year, 1924-25.			Explanations of Increase or Decrease (b).
				Collector's	Commissioner's.	Final.	
INCOME TAX—							
Income Tax Collections from Surplus Profits of Railways.							
SALARIES—							
Paid by Government							
Paid by Local Authorities							
Paid by Companies, other Public Bodies and Associations							
Paid by Private Employees under an agreement with the Collector							
INTEREST ON SECURITIES—							
On Securities of the Government of India..							
On Debentures and other Securities of a Local Authority or Company, ...							
INCOME DERIVED FROM HOUSE PROPERTY..							
INCOME DERIVED FROM BUSINESS							
PROFESSIONAL EARNINGS							
INCOME DERIVED FROM OTHER SOURCES—							
Salaries not included under "Salaries" ..							

Other sources							
EXCESS COLLECTIONS AND ADVANCE PAYMENTS							
ARREARS—							
Collections under section 25..							
Other arrears of previous years							
PENALTIES—							
Penal Assessments under section 24 ..							
Penal Recoveries under section 36 (1) ..							
Other Penalties and Fines							
MISCELLANEOUS RECEIPTS							(e) Provision for refunds for the Revised estimate for the current year, 1923-24 and the Budget estimate for next year, 1924-25, should be based on past and current actuals.
Total ..							
Deduct—Refunds (e) ..							
Total—Income Tax ..							
Total, II—Taxes on Income							

(a) The actuals for the past year 1922-23 may be filled in from local records.

(b) The explanation of increase or decrease in the Revised estimate 1923-24 as compared with the sanctioned estimate 1923-24 and that in the Budget estimate 1924-25 as compared with the Revised estimate 1923-24 should invariably be given in the column provided for the purpose.

Note.—The figures for the Estimates of *Excess Profits Duty, Super Tax and Income Tax* should be filled in according to the detailed heads shown in the body of the Budget estimate and not in lump.

DETAILS OF SUPER TAX.

Class.	Amount of Income.		Collections from Individuals.				Collections of Companies.				Collections from unregistered Firms.			
			Number of Assessees.		Amount of Tax.		Number of Assessees.		Amount of Tax.		Number of Assessees.		Amount of Tax.	
			Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.
1	2		3		4		5		6		7		8	
I	Rs.	50,001—1,00,000 ..												
II	,,	1,00,001—1,50,000 ..												
III	,,	1,50,001—2,00,000 ..												
VI	,,	2,00,001—2,50,000 ..												
V	,,	2,50,001—3,00,000 ..												
VI	,,	3,00,001—3,50,000 ..												
VII	,,	3,50,001—4,00,000 ..												
VIII	,,	4,00,001—4,50,000 ..												
IX	,,	4,50,001—5,00,000 ..												
X	,,	5,00,000 and more ..												
		Total ..												

Class.	Amount of Income.	Collections from Hindu Undivided Families.				Penalties and other Miscellaneous Receipts.				Total Collections.			
		Number of Assessees.		Amount of Tax.		Number of Assessees.		Amount of Tax.		Number of Assessees.		Amount of Tax.	
		Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.	Revised 1923-24	Budget 1924-25.	Revised 1923-24.	Budget 1924-25.
		9		10		11		12		13		14	
I	Rs. 50,001—1,00,000 ..												
II	„ 1,00,001—1,50,000 ..												
III	„ 1,50,001—2,00,000 ..												
IV	„ 2,00,001—2,50,000 ..												
V	„ 2,50,001—3,00,000 ..												
VI	„ 3,00,001—3,50,000 ..												
VII	„ 3,50,001—4,00,000 ..												
VIII	„ 4,00,001—4,50,000 ..												
IX	„ 4,50,001—5,00,000 ..												
X	„ 5,00,000 and more ..												
	Total ..												

OFFICE OF THE COLLECTOR OF
1923.

No.
Forwarded to the Commissioner of Income Tax.
Collector.

Forwarded to the Accountant-General, Bombay.
Commissioner of Income Tax.

APPENDIX No. 5.

Specimen form used in the preparation of estimate under a revenue head—Provincial subject.

BUDGET ESTIMATE—Part I.

1924-1925.

VI. EXCISE

————————————————DISTRICT.

	Date of Receipt.	Date of Despatch.
Collector		
Commissioner of Customs, Salt and Excise, Bombay in Sind		
Accountant-General		
Administrative Department		

LIST OF ACCOUNTANT-GENERAL'S REFERENCES.

No.	Date.		Reply received.	No. of Reminder.	Date of Reminder.		

N.B.—This Estimate in duplicate must reach the Commissioner of Customs, Salt and Excise, Bombay / in Sind by the September. The

Commissioner $\frac{\text{of Customs, Salt and Excise}}{\text{in Sind}}$ will forward the duplicate copy with a copy of Consolidated Budget to the Administrative Department and the original with the original Consolidated Budget to the Accountant-General on the 1*st October at latest*. The necessary spare forms are attached. Attention is invited to the instructions in Government Resolution, Finance Department, No. 270, dated 2nd June 1922.

Forwarded to the Collector of

OFFICE OF THE ACCOUNTANT-GENERAL :
BOMBAY, *August* 1923.

Assistant Accountant-General.
Assistant Accounts Officer.

No.

Forwarded to the Commissioner $\frac{\text{of Customs, Salt and Excise, Bombay.}}{\text{in Sind.}}$

Office of
1923.

Collector,

Commissioner $\frac{\text{of Customs, Salt and Excise, Bombay.}}{\text{in Sind.}}$

Compile.

Examiner. Superintendent.

VI.—EXCISE.	Actuals, past year, 1922-23 (a).	Sanctioned Estimate, current year, 1923-24.	Revised Estimate, current year, 1923-24.		Budget Estimate, next year, 1924-25.			Explanations of Increase or Decrease.
			Collector's.	Commissioner's.	Collector's.	Commissioner's.	Accountant General's	
LICENSE AND DISTILLERY FEES AND DUTIES FOR THE SALE OF LIQUORS—								
COUNTRY SPIRITS—								
Still-head duty								
Fees from Distilleries								
Fees for sale of distillery spirit. — Vend Fees ..								
Fees for sale of distillery spirit. — License Fees ..								
Receipts from out-still system								
TODDY—								
Tree-tax receipts								
Fees for sale of toddy — Vend Fees ..								
Fees for sale of toddy — License Fees. ..								
MALT LIQUORS—								
Duty on beer manufactured in India ..								
License fees for sale of beer manufactured in India or elsewhere								
WINES AND SPIRITS—								
Duty on Indian-made wines and spirits excised at tariff rates								
License fees for sale of Foreign liquors generally—whether imported or Indian made. ..								
Receipts from commercial spirits including medicated wines								
Excise pass fee on Foreign Liquor ..								

Opium—							
Fees for sale of opium { Vend Fees ..							
Fees for sale of opium { License Fees ..							
Total, License and Distillery Fees, etc.							
Hemp Drugs—							
Duty on Ganja							
Duty on Bhang							
Duty on Charas							
Vend Fees (wholesale, retail and ware-house dues)							
Total, Hemp Drugs							
Fines and Forfeitures (b)							
Miscellaneous (b)							
Deduct—Refunds (c)							
Grand Total, VI. Excise ..							

(a) The actuals for the past financial year 1922-23 are not separately available; the departmental actuals should, however, be entered.

(b Details of the amount provided for next year, 1924-25, should be given in the column of explanations.

(c) The provision of refunds for next year, 1924-25, and the Revised Estimate for current year, 1923-1924, should be based on the current and past actuals.

Lump provision on account of refunds for 1923-24 is shown only in the consolidated estimate.

APPENDIX No. 6.

Specimen form used in the preparation of estimate under fluctuating charges for a Central (agency) subject.

BUDGET ESTIMATE—Part II-A.

1924-1925.

MAJOR HEAD—1. Customs.

———————————DIVISION.

	Date of Receipt.	Date of Despatch.
Collector		
Commissioner		
Administrative Department (in duplicate)		

LIST OF ACCOUNTANT-GENERAL'S REFERENCES.

No.	Date.	Reply Received.	No. of Reminder.	Date of Reminder.	

N.B.—1. This Estimate must reach the Commissioner *not later than the* . The Commissioner will forward the Divisional Budget in duplicate completed, along with his explanatory notes so as to reach the Administrative Department of Government *direct not later than the*

2. The original should be returned to this office by the Administrative Department; the spare forms attached are intended for the use of the Estimating Officer.

3. This estimate should be very carefully prepared strictly in accordance with the instructions issued in Government, Finance Department, Resolution No. 270-A, dated 2nd June 1922.

Forwarded to the

OFFICE OF THE ACCOUNTANT-GENERAL,
BOMBAY, *August* 1923.

Assistant Accountant-General.
Assistant Accounts Officer.

MAJOR HEAD.	Actuals, past year, 1922-1923.	Sanctioned Estimate, current year, 1923-1924 (c).	Budget Estimate, next year, 1924-1925.				Explanations of Increase or Decrease.
					Revenue Department.	Finance Department.	
TEMPORARY ESTABLISHMENT (a) ..							(a) In the case of temporary establishment, details should be given and the authority under which provision is made should be quoted.
ALLOWANCES—							
Travelling allowance (b)							(b) Details of house rent allowance should be given and the amounts for ordinary travelling allowance should be provided on the basis of Actuals.
House-rent allowances (b)							
Grain compensation							
Plague allowance							
Overtime and Holiday allowances and Fees							
Total allowances							

CONTINGENCIES—						
Rewards						
Purchase of tents						
Purchase of stores and material						
Purchase and repairs of boats, toneys, steam launches, etc.						
Coal for steam launches						
Total Contingent Charges ..						
GRAND TOTAL ..						

(c) The figures should be filled in from the grants communicated by the Accountant-General.

No. Forwarded in duplicate to the Commissioner

Forwarded in duplicate to the Revenue Department, Bombay.

Dated 192 . Collector. Commissioner.

DETAILS OF TEMPORARY ESTABLISHMENT.

No.	Designation.	Monthly Pay.	Annual Cost.	Remarks.

Signature of Head of Office.

APPENDIX No. 7.

Specimen form used in the preparation of estimate under fluctuating charges for a provincial subject.

BUDGET ESTIMATE—Part II-A.

1924-1925.

MAJOR HEAD—22. General Administration.

OFFICE OF———————————

	Date of Receipt.	Date of Despatch.
Collector		
Commissioner		
Accountant-General		
Administrative Department of Government		

LIST OF REFERENCES.

No.	Date.	Reply received.	No. of Reminder.	Date of Reminder.	

N.B.—1. The original estimate in *duplicate* should be sent to the Commissioner by the September. The Commissioner will forward them so as to reach the

Administrative Department of Government *not later than the* 1st *October*. The Administrative Department will forward them to the Finance Department who will return the original to the Accountant-General by the 15th November 192 . The necessary spare forms are herewith attached.

2. This estimate should be very carefully prepared strictly in accordance with the instructions issued in Government Resolution, Finance Department, No. 270, dated 2nd June 1922.

Forwarded to the Collector of

OFFICE OF THE ACCOUNTANT GENERAL : Assistant Accountant-General.

BOMBAY, *August* 1923.

Assistant Accounts Officer.

Compile.

Examiner. Superintendent.

Numbers. 1923-1924.	Numbers. 1924-1925.	22. GENERAL ADMINISTRATION. E.—District Administration.	Actuals, past year, 1922-1923. (a)	Sanctioned Estimate, current year, 1923-1924. (c)	Budget Estimate, next year, 1924—1925. Collector's.	Budget Estimate, next year, 1924—1925. Commissioner's.	Budget Estimate, next year, 1924—1925. Administrative Department of Government	Finance Department.	Final.	Explanation of Increase or Decrease in the Estimate for next year 1924-1925 as compared with the Actuals for past year 1922-1923 and the Budget Estimate for current year 1923-1924.
		GENERAL ESTABLISHMENT. COLLECTOR'S AND ASSTT. COLLECTOR'S ESTABLISHMENT.								
		Pay of Establishment—								
		Temporary Establishment (*b*) ..								
		Total, Pay of Establishment ..								
		Allowances, Honoraria, etc.								
		Total Allowances, Honoraria, etc. ..								
		Contingencies								
		Total, Contingencies ..								
		Total Collector's and Asstt. Collector's Establishment ..								
		Carried forward ..								

(*a*) Actuals should be filled in from local records.

(*b*) Details for 1924-25 under each of the different heads, *viz.*, Collector's and Assistant Collector s, Treasury and Sub-divisional Establishments should be given on the reverse of this form in the space provided for the purpose. The authority under which the provision has been made should be quoted.

(*c*) The grants in this column should be filled in by the Estimating Officer, in the case of permanent establishment and fixed charges from the office records and in the case of fluctuating charges from the grants communicated by this office.

Numbers. 1923-1924.	Numbers. 1924-1925.	22. GENERAL ADMINISTRATION. E.—District Administration.	Actuals, past year, 1922-1923 (a).	Sanctioned Estimate, current year, 1923-1924 (c)	Budget Estimate, next year, 1924-1925. Collector's.	Budget Estimate, next year, 1924-1925. Commissioner's.	Budget Estimate, next year, 1924-1925. Administrative Department of Government	Finance Department.	Final.	Explanation of Increase or Decrease in the Estimate for next year 1924-1925 as compared with the Actuals for past year 1922-1923 and the Budget Estimate for current year 1923-1924.
		Brought over ..								
		TREASURY ESTABLISHMENT—								
		Pay of Establishment—								
		Temporary Establishment (b) ..								
		Total, Pay of Establishment ..								
		Allowances, Honoraria, etc.—								
		Total, Allowances, Honoraria, etc.								
		Contingencies—								
		Total, Contingencies								
		Total, Treasury Establishment ..								
		Total, General Establishment ..								

	SUBDIVISIONAL ESTABLISHMENT—							
	Pay of Establishment—							
	Temporary Establishment (*b*)							
	Total, Pay of Establishment							
	Allowances, Honoraria, etc.—							
	Total, Allowances, Honoraria, etc.							
	Contingencies –							
	Total, Contingencies ..							
	Total, Sub-Divisional Establishment ..							

(*a*) Actuals should be filled in from local records. (*b*) *Vide* remark (*b*) on page 2. (*c*) *Vide* remark (*c*) on page 2.

No. Forwarded to the Commissioner, Division
Dated 1923. Collector.

No.
Dated 1923.
Forwarded to Government, Department.
Commissioner.

DETAILS OF TEMPORARY ESTABLISHMENT.

No.	Designation.	Monthly Pay.	Annual Cost.	Remarks.
	Collector's and Assistant Collectors' Establishment.			
	Treasury establishment.			
	Sub-Divisional establishment.			

Signature of Head of Office.

APPENDIX No. 8.

Statement of new items of expenditure for inclusion in Budget Estimates of department for the year .

No. of item.	Major, minor and detailed head of account.	Particulars of item.	Amount proposed by local officer.	Grounds for expenditure, or reference to correspondence thereon.	Amount recommended by Administrative Department.	Notes in Finance Department.	Amount recommended by Finance Department.

APPENDIX No. 9.

Specimen form used by the Accountant-General in consolidating and reviewing the estimates of local officers.

Budget Note No. .

5.—Land Revenue (Expenditure—Provincial—Reserved).

ACCOUNTS.	FIRST MONTHS. Six.	Seven.	Eight.	Nine.	Ten.	LAST MONTHS. Six.	Five.	Four.	Three.	Two.	TOTAL.
1917-18	94,81	95,96	1,04,72	1,05,17	1,05,59	45,54	44,39	35,63	35,18	34,76	1,40,35
1918-19	96,09	1,05,19	1,07,59	1,07,04	1,06,11	51,54	42,44	40.04	40,59	41,52	1,47,63
1919-20	94,48	1,05,14	1,14,77	1,27,06	1,34,72	57,98	47,32	47,69	25,40	17,74	1,52,46
1920-21	98,42	1,02,76	1,16,43	1,21,75	1,27,53	58,00	53,66	39,99	34,67	28,89	1,66,42
1921-22	88,57	1,03,50	1,10,23	1,14,59	1,31,62	75,74	60,81	54,08	49,72	32,69	1,64,31
1922-23											
ESTIMATES.											
1922-23 { Budget ..	..		..	..	..	..	..	..	..	..	2,10,85
1922-23 { Revised	..	..	..	..	..	..	..	..	..	..	..
1923-24 . Budget ..	..	..	..	..	..	..	..	..	..	..	1,70,94

Eight months.		Minor Heads.	Accounts.					1922-23.		1923-24.	Revised, 1922-23, + more — less than Budget 1922-23.	Budget, 1923-24, + more — less than Revised, 1922-23.
1921-22.	1922-23.		1917-18.	1918-19.	1919-20.	1920-21.	1921-22.	Budget Estimate	Revised Estimate	Budget Estimate		
		PROVINCIAL.										
1,56		(1) Charges of Administration ..	1,70	53	74	1,76	1,57	44,57		4,88		
1,38		(2) Survey and Settlement	96	1,31	1,59	2,22	2,19	2,22		1,08		
32,13		(3) Land Records	26,87	34,25	38,73	46,09	48,45	50,27		50,48		
60,85		(4) Allowances to District and Village officers	96,65	97,23	97,42	91,52	97,32	98,28		96,68		
14,26		(5) Compensations	14,17	14,31	13,98	14,83	14,57	15,82		17,16		
5		(6) Expenditure in England	..	..	..	..	21	54		66		
		Lump deduction	..	..	..	..	..	85		..		
1,10,23		TOTAL ..	1,40,35	1,47,63	1,52,46	1,56,42	1,64,31	2,10,85		1,70,94		
40,18		Voted	..	..	..	..	58,61	1,03,14		63,24		
70,05		Non-voted ..	..	..	..	..	1,05,70	1,07,71		1,07,70		

APPENDIX No. 10.

Specimen form of consolidated detailed estimate prepared by the Accountant-General from the separate estimates of local officers and submitted to Government, along with budget notes, for orders.

6.—EXCISE. (*a*) (Transferred).

		Detailed Account No.				
			Rs.	Rs.	Rs.	Rs.
Presidency Establishment ..	Voted ..	6A				
	Non-voted ..					
District Executive Establishment.	Voted ..	6B				
	Non-voted ..					
Portion of the Combined Salt and Excise Establishment.	Voted ..					
	Non-voted	6C				
Excise Compensations ..	Voted ..	6D				
	Non-voted					
Expenditure in England ..	Voted ..					
	Non-voted ..					
	Total ..					
	Voted ..					
	Non-voted ..					

Detailed Account No. 6A.(a)—EXCISE.—Presidency Establishment.

Numbers.										
		Inspection and Preventive Establishment.								
		Establishment— Temporary and provisional Allowance								
		Total, Inspection and Preventive Establishment								
		Establishment in Collectors', etc. Offices.								
		Servants								
		Total, Establishment in Collectors', etc., Offices								
		Carried over ..								

(a) Under the control of the Commissioner of Customs, Salt and Excise, in the Presidency, and of the Commissioner in Sind in that Province.

Accounts.				Revised Estimate, 192 -192 .		Budget Estimate, 192 -192 .				
192 -192 . months.		192 -192 . months.				Departmental or Controlling Officer.		Accountant General.		
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	

APPENDIX No. 11.

" The following rules govern the allocation of railway expenditure between Capital and Revenue.

1. Capital bears all charges for the first construction and equipment of a project as well as charges for maintenance on sections not opened for working, and charges for such subsequent additions and improvements as may be admitted by competent authority.

2. An addition or improvement to admit of the cost being charged to Capital must be a permanent enlargement and substantial improvement in the character and object of the existing imperfect structure.

3. Revenue bears all charges for maintenance and working expenses which embrace all expenditure for the working and up-keep of the railway, for alterations, and for such minor additions or improvements as it may be considered desirable to charge to Revenue instead of increasing the capital cost of the railway.

Note.—Sidings required purely for Revenue purposes, *e.g.*, ballast and fuel sidings, are chargeable to Revenue and not to Capital.

4. New minor works costing Rs. 2,000 and under are chargeable to Revenue.

5. If any extraordinary casualty should occur, such as the destruction of a bridge by flood, the case must be regarded as exceptional, and the cost of construction or replacement will be charged to Capital or Revenue or divided between them as may be deemed proper by the Railway Board according to the circumstances of the case.

6. In the case of renewals and replacements of existing works involving improvements, if the estimated cost of the new work is less than the cost of the original work or below the new minor works limit of Rs. 2,000, the whole cost of the new work will be charged to Revenue and that of the original work will be left at the debit of Capital. In other cases the whole cost of

the new work will be charged to Capital, and that of the original work, which may be estimated if the actual original cost is not known, will be written back from Capital to Revenue.

7. The allocation of the cost of temporary works which are incidental to other works should follow that of the main works in connection with which they are required and where the main works are debitable partly to Capital and partly to Revenue their cost should be divided between the two in rateable proportions. This applies to temporary diversions.

8. The cost of purely temporary or experimental work on an open line is chargeable to Revenue, but it may be subsequently transferred to Capital if the work is permanently adopted.

Note.—In the case of Trial Stations, if the estimated cost is within the limit for New Minor Works (which should generally be the case for a true Trial Station the necessity for which is at all open to doubt), the amount should be charged against the Revenue Account, but if the cost exceeds that limit the amount should be charged against the Capital Account. If, however, the station is hereafter abandoned the expenditure should be written back to Revenue.

9. Except as provided for by paragraph 35 II (*b*), all charges for land taken up permanently, irrespective of the amount of cost or whether required for Capital or Revenue, works are debitable to Capital under the main head II.—Land. Rent or other miscellaneous charges in connection with hire of land should be charged to the work or purpose concerned.

10. In the case of light rails being renewed with heavier rails, Capital may be charged with a portion of the cost of the new material proportionate to the excess weight by which the new rails exceed the old rails, subject to the proviso that such charge to Capital shall never exceed the actual excess on the cost of the new materials over the original cost of the old.

Note.—In cases in which renewal of track by a different weight of rail and different type of sleeper is proposed, the debit to capital should be arrived at by estimating the original cost of the material in the track to be renewed and the cost at present prices of similar material, and deducting whichever is greater from the cost of the new material which it is proposed to use.

11. In connection with estimates for the strengthening and renewing of bridges the allocation of the cost of each

bridge should be considered separately on the following basis :—

(*a*) Where old girders are replaced by new and heavier ones Capital should only be charged with a portion of the cost of the new material proportionate to the excess weight of the new over the old girders or with the difference in cost of the new material over the original cost of the old whichever is less, the balance of cost together with the charges for dismantling and re-erecting should be debited to Revenue which will receive credit for the present value of the materials returned. The fact that the girders are not entirely worn out but are only renewed on account of increased loads, would be provided for by the larger credit to Revenue for old girders.

(*b*) Where any of the released girders are subsequently used in duplicating other spans, Capital should bear the cost of the second pair of girders at their present value as credited to Revenue. But the total charge to Capital when released girders are used in duplicating shall in no case exceed the charge that would be made to Capital if the old girders were replaced by new ones of the necessary strength.

(*c*) Similarly where the strengthening of bridges takes the form of increased weight of material added to the existing girders in preference to replacing the girders with new ones of the necessary strength, the charge to Capital in respect of the new materials may not exceed the charge that would be made to Capital if the old girders were replaced by new ones of the necessary strength.

(*d*) Raising the road bed in the approaches of railway bridges, necessitated by the replacement of girders, originally erected by others of greater depth, is not in itself an improvement, but is an essential part of the improvement effected by introducing deeper girders. Accordingly the cost of the additional earthwork carried out in raising the road level is chargeable to Capital provided that the deeper girders give stronger bridges.

12. In all cases of renewals, all charges on account of freight of materials from Depot to site and loading and unloading of materials should be debited wholly to Revenue."

(Para. 47 of the State Railway Code for the Engineering Department, first edition, 1921.)

APPENDIX No. 11A.

*Powers of Financial Sanction in Railway Matters**.

(1) *Surveys.*

Power to order surveys to be undertaken :—

Government of India—Full power.

Railway Department—Full power of the Government of India.

Estimates, Revised Estimates, Excesses over Estimates and Completion Reports :—

Government of India—Full power.

Railway Department—Full power of the Government of India.

(2) *Construction of new Railways out of Loan Funds.*

Government of India.—Power to sanction a new railway, or an addition to, or an extension of, an existing railway, provided that the following conditions are fulfilled :—

(*i*) that the estimated cost of each line does not exceed Rs. 12½ lakhs ;

(*ii*) that in the case of an extension of a line which was originally sanctioned by the Government of India as being estimated not to exceed Rs. 12½ lakhs, the cost of the original line and the extension are together within the 12½ lakhs' limit ;

(*iii*) that the line is a branch or chord line connecting with one railway only, and no rights of extension are given ;

(*iv*) that the construction of the proposed line is not objected to by the owners of the railway to which it is a branch or connecting chord, or by the working Company, if the railway is the property of the State but worked by a Company, having a financial interest in its results ;

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* Owing to the changes which take place in these matters from time to time the list given here must be understood to be subject to correction.

(*v*) that there are no special circumstances in connection with the proposed line which, in the judgment of the Government of India, render it a case which ought to be reserved for the consideration of the Secretary of State, and

(*vi*) that funds for the construction of the line are available under the programme.

All other railway projects require to be submitted for the sanction of the Secretary of State, either by inclusion in the programme, with necessary particulars, or separately.

Note.—The Government of India have no power to sanction :—

(*a*) a chord line connecting with railways of different ownership, or

(*b*) an extension of a branch line which when extended would connect at each end with a railway of different ownership.

Railway Department.—Full power of the Government of India.

(3) *Construction estimates of new railways.*

Government of India.—Full power to sanction original construction estimates within the limits of the amounts sanctioned by the Secretary of State in the case of projects which require the sanction of the Secretary of State and in the case of other projects, up to a limit not exceeding Rs. 12½ lakhs.

Railway Department.—Full powers of the Government of India.

(3-A.) *Revised Construction Estimates and Completion Estimates or Reports for new railways.*

Government of India.—(i) In the case of projects sanctioned by the Secretary of State through the programme or separately, the Government of India can sanction a revised construction estimate or a completion estimate or report provided that in each case there is not an excess over the amount reported to, and approved by, the Secretary of State of more than 25 per cent. or Rs. 50 lakhs, whichever is less.

(ii) In other cases the Government of India can sanction revised construction estimates and completion estimates up to a limit not exceeding Rs. 12½ lakhs, as in the case of original estimates. If this figure is exceeded the sanction of the Secretary of State is necessary.

Railway Department.—(i) The limits to the powers of sanction of the Railway Department in the class of cases specified in (i) above are 10 per cent or Rs. 12½ lakhs, whichever is less.

(ii) In cases referred to in (ii) above the power of the Railway Department is the same as that of the Government of India.

Note.—The Government of India have no power to sanction any excess over a revised estimate sanctioned by the Secretary of State. All such excesses require the sanction of the Secretary of State. Similarly, the Railway Department has no authority to sanction any excess over a revised estimate sanctioned with the concurrence of the Finance Department, without first obtaining the concurrence of that Department thereto.

(4) *Open Line Capital Expenditure.*

Government of India.—Power to sanction all original estimates for open line capital works, subject in the case of any work, or group of works, forming part of one scheme and estimated to cost more than 20 lakhs, to the prior sanction of the Secretary of State to the estimated expenditure.

Railway Department.—Full power of the Government of India.

(5) *Original estimates for mixed Capital and Revenue Works.*

Government of India.—Power to sanction original estimates of open line works or groups of works, chargeable partly to capital and partly to revenue, of which the portion of the cost chargeable to capital is not estimated to exceed 20 lakhs.

Railway Department.—Full power of the Government of India.

(6) *Revenue Expenditure.*

Estimates for revenue special works and renewals, including renewals of rolling stock.

Government of India—Full power.

Railway Department—Power of the Government of India.

Ordinary revenue expenditure.

Government of India . . Full Powers.

Railway Department . . Full power to sanction within the total sanctioned grant for the year.

(7) *General establishment matters.*

The powers under this head are governed by the rules governing the expenditure powers of the Government of India in regard to subjects other than provincial given in Appendix 1, and the Fundamental Rules.

(8) *Rates and fares.*

Government of India.—Subject, in the case of companies' lines, to the terms of their contracts, the Government of India have full power to fix and to modify maximum and minimum rates, and to authorise deviation from the fixed maximum and minimum in special cases, subject to the following conditions :—

(*a*) that due notice should be given to railway companies of any proposed alterations in their tariffs that would seriously affect their interests, and that they should be given a full opportunity of discussing them before any final decision is taken ; and

(*b*) that the Secretary of State in Council should be consulted before important reductions of rates and fares are ordered which will have the effect of diminishing the revenue of India.

Railway Department.—Full power of the Government of India.

(9) *Purchase of Companies' railways by the State.*

No power. The sanction of the Secretary of State is necessary.

(10) *Sale of State Railways to Companies.*

No power. The sanction of the Secretary of State is necessary.

(11) *Purchases of Stores.*

These powers are governed by the Stores Rules issued by the Government of India with the approval of the Secretary of State.

APPENDIX No. 12.

LIST OF MAJOR HEADS OF REVENUE AND EXPENDITURE.

Section letters.	Major Heads and Sections.
	REVENUE.
A.	PRINCIPAL HEADS OF REVENUE.
	I.—Customs.
	II.—Taxes on Income.
	III.—Salt.
	IV.—Opium.
	V.—Land Revenue.
	VI.—Excise.
	VII.—Stamps—
	A.—Non-Judicial.
	B.—Judicial.
	VIII.—Forest.
	IX.—Registration.
	IXA.—Scheduled Taxes.
	X.—Tributes from Indian States.
B.	RAILWAYS.
	XI.—State Railways—
	Gross receipts.
	Deduct Working Expenses.
	Surplus Profits and net earnings paid to Companies.
	Net receipts.
	XII.—Subsidised Companies.
C.	IRRIGATION, NAVIGATION, EMBANKMENT AND DRAINAGE WORKS.
	XIII.—Irrigation, Navigation, Embankment and Drainage Works for which Capital accounts are kept—
	A. IRRIGATION WORKS.
	(1) Productive works—
	Gross receipts.
	Direct receipts.
	Portion of Land Revenue due to Irrigation.
	Deduct Working Expenses—
	Net Receipts.
	(2) Unproductive works—
	Gross receipts.
	Direct receipts.
	Portion of Land Revenue due to Irrigation.
	Deduct Working Expenses.
	Net receipts or payments.
	Total Net Receipts.
	B. NAVIGATION, EMBANKMENT AND DRAINAGE WORKS (Same heads as for Irrigation Works.)

Section letters.	Major Heads and Sections.
	XIV.—Irrigation, Navigation, Embankment and Drainage Works for which no Capital accounts are kept.
	A. Irrigation Works.
	(1) Works for which only revenue accounts are kept.
	Direct receipts.
	Deduct refunds.
	(2) Works for which neither capital nor revenue accounts are kept.
	Direct receipts.
	Deduct refunds.
	B. Navigation, Embankment and Drainage Works. (Same heads as for A.)
D.	Posts and Telegraphs.
	XV.—Posts and Telegraphs—
	Gross receipts.
	Deduct Working Expenses.
	Net receipts.
E.	Debt Services.
	XVI.—Interest.
F.	Civil Administration.
	XVII.—Administration of Justice.
	XVIII.—Jails and Convict Settlements.
	XIX.—Police.
	XX.—Ports and Pilotage.—
	A.—Major Ports.
	B.—Minor Ports.
	XXI.—Education—
	A.—University.
	B.—Secondary.
	C.—Primary.
	D.—Special.
	E.—General.
	XXII.—Medical.
	XXIII.—Public Health.
	XXIV.—Agriculture.

Section letters.	Major Heads and Sections.
	XXV.—Industries.
	XXVI.—Miscellaneous Departments.
G.	Currency and Mint.
	XXVII.—Currency.
	XXVIII.—Mint.
H.	Civil Works.
	XXX.—Civil Works.
	XXXI.—Waterways and Embankments.
J.	Miscellaneous.
	XXXII.—Transfers from Famine Insurance Fund.
	XXXIII.—Receipts in aid of Superannuation.
	XXXIV.—Stationery and Printing.
	XXXV.—Miscellaneous.
K.	Military Receipts.
	XXXVI.—Army—
	A. Standing Army.
	Effective.
	Non-effective.
	B. Auxiliary and Territorial Forces.
	Effective.
	Non-effective.
	XXXVII.—Marine.
	Effective.
	Non-effective.
	XXXVIII.—Military Works.
L.	Provincial Contributions and Miscellaneous Adjustments between Central and Provincial Governments.
	XXXIX.—Contributions to the Central Government by Provincial Governments.
	XL.—Miscellaneous adjustments between the Central and Provincial Governments.
BB.	Railway Capital Account not charged to Revenue.
	XLI.—Capital contributed by Railway Companies and Indian States towards outlay on State Railways.

Section letters.	Major Heads and Sections.
HH.	CIVIL WORKS AND MISCELLANEOUS PUBLIC IMPROVEMENTS NOT CHARGED TO REVENUE.
	XLII.—Bombay Development Scheme.
	EXPENDITURE.
A.	DIRECT DEMANDS ON THE REVENUE:—
	1. Customs.
	2. Taxes on Income.
	3. Salt.
	4. Opium.
	5. Land Revenue.
	6. Excise.
	7. Stamps—
	A.—Non-Judicial.
	B.—Judicial.
	8. Forest.
	9. Registration.
	9A. Scheduled Taxes.
B.	RAILWAY REVENUE ACCOUNT:—
	10. State Railways—
	Interest on Debt.
	Interest on capital contributed by Companies and Indian States.
	Annuities in purchase of Railways.
	Sinking Funds.
	Interest chargeable against Companies on advances.
	Interest on Capital deposited by Companies.
	11. Subsidised Companies.
	12. Miscellaneous Railway Expenditure.
BB.	RAILWAY CAPITAL ACCOUNT (CHARGED TO REVENUE):—
	13. Construction of Railways.
C.	REVENUE ACCOUNT OF IRRIGATION, NAVIGATION, EMBANKMENT AND DRAINAGE WORKS.
	14. Interest on Works for which Capital Accounts are kept—
	Irrigation Works.
	Navigation, Embankment and Drainage Works.
	15. Other Revenue expenditure financed from ordinary revenues.
	A. IRRIGATION WORKS.
	(1) Works for which only revenue accounts are kept.
	(2) Works for which neither capital nor revenue accounts are kept.
	(3) Miscellaneous expenditure.
	B. NAVIGATION, EMBANKMENT AND DRAINAGE WORKS.
	(Same heads as for A.)
	Deduct amount financed from ordinary revenues.
	Net amount charged to ordinary revenues.
	15 (1) Other Revenue expenditure financed from Famine Insurance grants.
	Irrigation Works.
	Navigation, Embankment and Drainage Works.
CC.	CAPITAL ACCOUNT OF IRRIGATION, NAVIGATION, EMBANKMENT AND DRAINAGE WORKS.
	16. Construction of Irrigation, Navigation, Embankment and Drainage Works.
	A.—Financed from Famine Insurance grants.
	Irrigation Works.
	Navigation, Embankment and Drainage Works.
	B.—Financed from ordinary revenues.
	(Same heads as for A above.)
	Deduct Repayments of capital expenditure charged to ordinary revenues.
	Net amount charged to ordinary revenues.
D.	POSTS AND TELEGRAPHS REVENUE ACCOUNT:—
	17. Posts and Telegraphs.
DD.	POSTS AND TELEGRAPHS CAPITAL ACCOUNT (CHARGED TO REVENUE):—
	18. Capital outlay on Posts and Telegraphs.
E.	DEBT SERVICES:—
	19. Interest on Ordinary Debt.
	20. Interest on other obligations.

Section letters.	Major Heads and Sections.	Section letters.	Major Heads and Sections.
F.	CIVIL ADMINISTRATION:—		35. Industries.
	22. General Administration:—		36. Aviation.
	A.—Heads of Provinces (including Governor General) Executive Councils and Ministers.		37. Miscellaneous Departments.
	B.—Legislative Bodies.	G.	CURRENCY AND MINT:—
	C.—Secretariat and headquarters establishments.		38. Currency.
	D.—Commissioners.		39. Mint.
	E.—District administration.	H.	CIVIL WORKS.
	F.—Miscellaneous.		41. Civil Works.
	23. Audit.		42. Waterways and Embankments.
	24. Administration of Justice.	J.	MISCELLANEOUS:—
	25. Jails and Convict Settlements.		43. Famine Relief and Insurance:—
	26. Police.		A.—Famine Relief.
	27. Ports and Pilotage.—		B.—Transfers to Famine Insurance Fund.
	A.—Major Ports.		44. Territorial and Political Pensions.
	B.—Minor Ports.		45. Superannuation Allowances and Pensions.
	28. Ecclesiastical.		46. Stationery and Printing.
	29. Political.		47. Miscellaneous.
	30. Scientific Departments.	K.	MILITARY SERVICES:—
	31. Education:—		48. Army:—
	A.—University.		A.—Standing Army.
	B.—Secondary.		Effective.
	C.—Primary.		Non-effective.
	D.—Special.		B.—Auxiliary and Territorial Forces.
	E.—General.		Effective.
	32. Medical.		Non-effective.
	33. Public Health.		49. Marine.
	34. Agriculture.		Effective.
			Non-effective.
			50. Military Works.

Section letters.	Major Heads and Sections.
L.	PROVINCIAL CONTRIBUTIONS AND MISCELLANEOUS ADJUSTMENTS BETWEEN CENTRAL AND PROVINCIAL GOVERNMENTS.
	51. Contributions to the Central Government by Provincial Governments.
	52. Miscellaneous adjustments between the Central and Provincial Governments.
	CAPITAL EXPENDITURE NOT CHARGED TO REVENUE.
AA.	PRINCIPAL REVENUE HEADS:—
	52A. Forest Capital Outlay.
BB.	RAILWAY CAPITAL ACCOUNT NOT CHARGED TO REVENUE:
	53. Construction of State Railways.
	54. Redemption of liabilities involved in purchase of Railways.
CC.	CAPITAL ACCOUNT OF IRRIGATION, NAVIGATION, EMBANKMENT AND DRAINAGE WORKS NOT CHARGED TO REVENUE:—
	55. Construction of Irrigation, Navigation, Embankment and Drainage Works:—
	A.—IRRIGATION WORKS.
	1. Productive.
	2. Unproductive.
	B.—NAVIGATION, EMBANKMENT AND DRAINAGE WORKS.
	(Same heads as for A.)

Section letters.	Major Heads and Sections.
	Deduct Amount financed from Famine Insurance grants.
	Deduct Amount financed from ordinary revenues.
	Add Repayments of capital expenditure charged to ordinary revenues.
	Net amount not charged to revenue.
DD.	POSTS AND TELEGRAPHS CAPITAL ACCOUNT NOT CHARGED TO REVENUE:—
	56. Capital outlay on Posts and Telegraphs.
FF.	CIVIL ADMINISTRATION.
	56A. Capital Outlay on improvement of public health.
	56B. Capital Outlay on agricultural improvements.
	56C. Capital Outlay on industrial development.
	56D. Capital Outlay on hydro-electric schemes.
HH.	CIVIL WORKS AND MISCELLANEOUS PUBLIC IMPROVEMENTS NOT CHARGED TO REVENUE.
	57. Initial Expenditure on New Capital at Delhi.
	59. Bombay Development Scheme.
	60. Civil works not charged to Revenue.
J.J.	MISCELLANEOUS CAPITAL EXPENDITURE NOT CHARGED TO REVENUE.
	60A. Other Provincial works not charged to Revenue.

APPENDIX No. 13.

Distribution Statement of Expenditure under Central and Provincial for the Year 19   19 .

Major Head.	Minor Head.	Central.			Provincial. Reserved.			Provincial. Transferred.			Provincial. Total.			Total minor head.
		Non-voted.	Voted.	Total.	Non-voted.	Voted	Total.	Non-voted.	Voted.	Total.	Non-voted.	Voted.	Total.	
0 Scientific Departments .	Archæology	000	000	000	..	..	..	..	..	..	..	..	..	000
	Hydro-electric Survey ..	..	..	..	000	000	000	..	..	..	000	000	000	000
	Museums	..	..	..	..	..	..	000	000	000	000	000	000	000
Total Major Head ..		000	000	000	000	000	000	000	000	000	000	000	000	000

APPENDIX No. 14.

Account of the Revenue and Expenditure of the Provincial Government of————for the month of————

RECEIPTS.	Current month.	Progressive Total.	Budget Estimate.	DISBURSEMENTS.	Current month.	Progressive Total.	Budget Grant.
To Sundry revenue heads as detailed—				By Sundry charge as detailed—			
Land Revenue				Land Revenue			
Etc.				Etc.			
Etc.				Etc.			
Total Ordinary Receipts as per Civil Books.				Total Ordinary Charges as per Civil Books.			
To Railway Receipts (last account, month of...........)—				By Railway Charges (last account, month of........)—			
Total Revenue in India				Total Expenditure in India ..			
Revenue in England converted into Rupees at £1= Rs. 10 (last account, month of.........)—				Expenditure in England converted into Rupees at £1 = Rs. 10 (last account, month of..........)—			
Secretary of State				Secretary of State			
High Commissioner				High Commissioner			
Total Revenue in India and England				Total Expenditure in India and England.			
Miscellaneous adjustments with the Central Government.. ..				Contribution to the Central Government under Rule......of the Devolution Rules			
Famine Insurance Fund				Assignment to the Central Government under Rule......of the Devolution Rules.			
Loans and Advances, etc., etc. ..				Miscellaneous adjustments with the Central Government. ..			
				Irrigation Capital Expenditure ..			
				Outlay on Waterways			
				Famine Insurance Fund			
				Loans and Advances, etc., etc. ..			
TOTAL ..				TOTAL ..			
	Add— Opening balance.				*Add*— Closing balance.		
	TOTAL ..				TOTAL ..		

Note.—The distribution of the total expenditure in India and England between Reserved and Transferred and of each into voted and non-voted together with the Budget grant in respect of each division is shown in subsidiary statements.

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[N.B.—*The reference is to pages throughout unless the contrary is indicated.*

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